**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS AND SIX MONTHS ENDED**

**JUNE 30, 2018 AND JUNE 30, 2017**

**August 8, 2018**

## LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our May 9, 2018 letter to shareholders.

In the second quarter of 2018, we completed five horizontal wells through breakup that were previously drilled but not completed and began drilling operations back in the field in early June. Since early June to June 30, we drilled a total of 12 horizontal wells (11.5 net) and completed 9 gross (8.9 net) of the horizontal wells drilled in June. Since the end of second quarter, we have continued drilling and expect to have 39 horizontal wells drilled and completed by the end of August. From inception to June 30, 2018, we have brought a total of 105 (103.8 net) horizontal Viking oil wells on production.

Our expanded 2018 capital program now consists of spending a total of $142 million (excluding acquisitions or dispositions) with the drilling and completion of 110 gross (106.3 net) horizontal Viking oil wells for $95 million and facility, waterflood and abandonment capital of $47 million. The facility capital spending will facilitate future growth throughout our core areas and will reduce future operating and transportation costs. We expect that after 2018, facility capital will be significantly reduced. Waterflood and abandonment activity will include reactivation and implementation of waterflood on six sections of land while abandoning approximately 121 wells in 2018.

On June 14, 2018, the Company closed the previously announced disposition of our non-core shallow gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of $30 million (prior to customary closing adjustments). The disposition includes the majority of the non-core, non-Viking assets acquired as part of Karve's transformative Q3 2017 acquisition. Production from the disposition averaged approximately 3,500 BOE/d (44% liquids) in June 2018. The transaction significantly reduced our total well count, removing 1,922 gross wellbores. This results in a material reduction in our asset retirement obligation from an undiscounted estimate of $239 million previously to a current undiscounted estimate of $125 million. The Company also improved its Licensee Liability Rating (LLR) with the Alberta Energy Regulator from 1.52 prior to the disposition to 2.17 after closing the disposition. Pursuant to the terms of the disposition, Karve retained key infrastructure, all producing and prospective Viking light oil assets and fee title lands acquired as part of Karve's transformative Q3 2017 acquisition.

Karve production averaged over 11,000 BOE/d in Q2 prior to the asset sale. Pro forma the disposition, current Karve production is approximately 8,000 BOE/d (68% liquids). Additionally, as at June 30, 2018 we were in a positive working capital position of $34 million with an undrawn $25 million credit facility adding to our financial flexibility.

Karve's expanded 2018 capital spending of $142 million is expected to generate pre-tax cash flow in excess of $100 million in 2018, average 9,750 BOE/d pro forma the disposition (69% liquids) and exit at 10,500 BOE/d (73% liquids).

You will find enclosed the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three and six months ended June 30, 2018. 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 period from January 1, 2018 to June 30, 2018 ("six months ended June 30, 2018"). It is dated August 8, 2018 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months and six months ended June 30, 2018 and the audited consolidated financial statements for the year ended December 31, 2017. 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 three months ended | | For the six months ended | |
|---|---|---|---|---|
| **FINANCIAL** *(Canadian $000, except per share and per boe amounts)* | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Net income (loss) | 4,629 | (1,544) | 10,060 | (2,146) |
| Per share - basic | 0.03 | (0.02) | 0.07 | (0.03) |
| Per share - diluted | 0.03 | (0.02) | 0.07 | (0.03) |
| Funds flow from operations (1) | 19,698 | 4,728 | 42,067 | 7,808 |
| Per share - basic (1) | 0.14 | 0.07 | 0.31 | 0.12 |
| Per share - diluted (1) | 0.13 | 0.07 | 0.28 | 0.12 |
| Adjusted funds flow from operations (1) | 21,812 | 4,948 | 45,299 | 8,028 |
| Per share - basic (1) | 0.16 | 0.08 | 0.33 | 0.12 |
| Per share - diluted (1) | 0.15 | 0.08 | 0.31 | 0.12 |
| Capital expenditures | 16,870 | 7,958 | 42,552 | 20,336 |
| Net acquisitions (dispositions) | (29,295) | 8 | (29,295) | (443) |
| Total net capital expenditures | (12,425) | 7,966 | 13,257 | 19,893 |
| Adjusted positive working capital (1) | 34,063 | 11,184 | 34,063 | 11,184 |
| Total assets | 265,604 | 78,305 | 265,604 | 78,305 |
| Shares outstanding, weighted average (000s) | 137,199 | 64,753 | 137,199 | 64,753 |
| Shares outstanding, end of period (000s) | 137,199 | 64,753 | 137,199 | 64,753 |
| **OPERATIONAL** | | | | |
| Sales volumes | | | | |
| Oil (bbl/d) | 5,697 | 1,874 | 5,952 | 1,496 |
| NGLs (bbl/d) | 523 | 7 | 471 | 6 |
| Natural gas (mcf/d) | 24,032 | 1,037 | 23,384 | 891 |
| **Total (boe/d)** | **10,225** | **2,054** | **10,320** | **1,651** |
| Average sales prices (excludes hedging gains and losses) | | | | |
| Oil ($/bbl) | 74.08 | 56.93 | 68.79 | 57.64 |
| NGLs ($/bbl) | 60.46 | 59.94 | 57.75 | 60.40 |
| Natural gas ($/mcf) | 1.37 | 2.87 | 1.83 | 2.94 |
| **Boe basis ($/boe)** | **47.59** | **53.61** | **46.44** | **54.06** |
| Field netback ($/boe) | | | | |
| Sales price | 47.59 | 53.61 | 46.44 | 54.06 |
| Royalties | (2.86) | (3.03) | (2.62) | (3.11) |
| Operating expense | (15.87) | (14.72) | (15.88) | (16.19) |
| Transportation expense | (1.87) | (3.09) | (1.54) | (3.09) |
| **Field netback (1)** | **26.99** | **32.77** | **26.40** | **31.67** |

(1) Non-GAAP measure, see page 15 for details.

## SALES VOLUMES

Sales volumes averaged 10,225 boe/d (including disposition production until closing on June 14,2018) during the three months ended June 30, 2018 compared to 2,054 boe/d for three months ended June 30, 2017. The increase in sales volumes is due to the Provost acquisition which closed on August 15, 2017 and bringing 4 gross (4.0 net) horizontal wells on production during the three months ended June 30, 2018 for a total of 105 (103.8 net) wells since inception.

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 90% liquids to 61% liquids. It is management's intention to increase the liquids weighting of the acquired property through horizontal drilling of Viking light oil wells and the disposal of non-core gas weighted assets.

On June 14, 2018, the Company closed a divesture of its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta with production of approximately 3,500 boe/d. Current production is approximately 8,000 boe/d, 68% liquids, for the first week of August 2018.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Sales volumes | | | | |
| Oil (bbl/d) | 5,697 | 1,874 | 5,952 | 1,496 |
| NGLs (bbl/d) | 523 | 7 | 471 | 6 |
| Natural gas (mcf/d) | 24,032 | 1,037 | 23,384 | 891 |
| **Total (boe/d)** | **10,225** | **2,054** | **10,320** | **1,651** |

## SALES PRICES AND REVENUE

For the three months ended June 30, 2018, the Company generated revenue of $44.3 million (three months ended June 30, 2017- $10.0 million) on average sales volumes of 10,225 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the three months ended June 30, 2018 was $47.59 compared to $53.61 for the three months ended June 30, 2017. The decrease relates to 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 offset by higher benchmark oil pricing. 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 period when the Company was 90% liquids weighted. It is management's intention to increase the liquids weighting to approximately 75% liquids long term through horizontal drilling of Viking light oil wells after the closing of the disposition on June 14, 2018 of non-core gas weighted assets.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| **KARVE AVERAGE REALIZED PRICE (1)** | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Revenue ($000s) | 44,283 | 10,017 | 86,758 | 16,153 |
| Oil ($/bbl) | 74.08 | 56.93 | 68.79 | 57.64 |
| NGLs ($/bbl) | 60.46 | 59.94 | 57.75 | 60.40 |
| Natural gas ($/mcf) | 1.37 | 2.87 | 1.83 | 2.94 |
| **Karve realized price ($/boe)** | **47.59** | **53.61** | **46.44** | **54.06** |
| **AVERAGE BENCHMARK PRICES (2)** | | | | |
| Crude oil - WTI ($US/bbl) | 67.88 | 48.27 | 65.38 | 50.09 |
| Crude oil - Canadian light sweet ($CDN/bbl) | 77.82 | 59.72 | 73.96 | 62.27 |
| Natural gas - AECO-C spot ($CDN/mcf) | 1.20 | 2.79 | 1.63 | 2.74 |
| Exchange Rate - ($US/$CAD) | 0.77 | 0.74 | 0.77 | 0.75 |

(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 June 30, 2018, the Company had the following commodity contracts in place:

| 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 | (789) |
| Fixed price swap | Jan. 1/18 - Dec. 31/18 | WTI | 200 | 71.10 | (1,213) |
| **TOTAL VOLUME AND WEIGHTED AVERAGE PRICE** | | | **500** | **70.77** | **(2,002)** |

(1 ) Nymex WTI monthly average in $CAD.

| Type | Term | Basis [(1)] | Volume (Bbl/d) | Sold Put Price ($CAD/Bbl) [(1)] | Current Liability ($000s) |
|---|---|---|---|---|---|
| Put option | Jan. 1/18 - Dec. 31/18 | WTI | 1,500 | 64.00 | (593) |
| Put option | Mar. 1/18 - Dec. 31/18 | WTI | 1,000 | 70.00 | (265) |
| **TOTAL VOLUME AND WEIGHTED AVERAGE PRICE** | | | **2,500** | **66.40** | **(858)** |

(1 ) Nymex WTI monthly average in $CAD.

At June 30, 2018, $934,000 of prepaid put option premiums relating to the put option premium for the unsettled option term are included in prepaids and deposits on the consolidated statement of financial position.

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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Realized gain (loss) on financial derivative contracts | (1,230) | 199 | (1,983) | 199 |
| Unrealized gain (loss) on financial derivative contracts | (685) | 130 | (2,914) | 336 |
| **GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS** | **(1,915)** | **329** | **(4,897)** | **535** |

At June 30, 2018, the fair value of the financial derivative contract was a current liability position of $2.9 million resulting in an unrealized loss of $2.9 million for the six months ended June 30,2018. 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 June 30, 2018 and may be different from what will eventually be realized. The Company recognized a realized loss of $1.2 million for the three months ended June 30, 2018 (three months ended June 30, 2017 – $199,000 realized gain).

Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $465,000 increase in the unrealized loss and a $5.00 USD decrease in WTI would result in a $484,000 decrease in the unrealized loss.

The unrealized loss on August 8, 2018 (day prior to financial statement release) was $2.4 million.

# ROYALTIES

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Royalties | 2,664 | 566 | 4,892 | 928 |
| Royalties as a % of revenue | 6.0% | 5.7% | 5.6% | 5.7% |
| Per boe ($) | 2.86 | 3.03 | 2.62 | 3.11 |

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended June 30, 2018 was $2.7 million ($2.86 per boe) compared to $566,000 ($3.03 per boe) for the three months ended June 30, 2017. For the three months ended June 30, 2018, the Company's royalty rate was 6.0% of revenues (three months ended June 30, 2017 – 5.7%). Post closing of the disposition, the Company expects royalties to be modestly lower but, in the long term, as more horizontal Viking wells come off the royalty holiday, the Company expects to see royalties trend upward.

## OPERATING EXPENSE

| ($000s, except per boe amounts) | For the three months ended June 30, 2018 | June 30, 2017 | For the six months ended June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Operating expense | 14,767 | 2,750 | 29,662 | 4,839 |
| Per boe ($) | 15.87 | 14.72 | 15.88 | 16.19 |

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 $14.8 million ($15.87 per boe) during the three months ended June 30, 2018 and $2.8 million ($14.72 per boe) for the three months ended June 30, 2017. Operating expenses per boe decreased during the six months ended June 30, 2018 compared to the six months ended June 30, 2017 due to new horizontal oil wells brought on production and efficiencies in operating the assets over time. Operating expenses per boe for the three months ended June 30, 2018 increased compared to the three months ended June 30, 2017 due to the Company having a higher proportion of gas-weighted assets acquired in the Provost acquisition in August 2017.

## TRANSPORTATION EXPENSE

| ($000s, except per boe amounts) | For the three months ended June 30, 2018 | June 30, 2017 | For the six months ended June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Transportation expense | 1,738 | 578 | 2,872 | 922 |
| Per boe ($) | 1.87 | 3.09 | 1.54 | 3.09 |

Transportation expense includes costs paid to third parties for transporting clean oil and sales gas to the pipeline or processing plant point of sale. Transportation expenses were $1.8 million ($1.87 per boe) during the three months ended June 30, 2018 and $578,000 ($3.09 per boe) for the three months ended June 30, 2017.

## FIELD NETBACK

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

| ($000s, except per boe amounts) | For the three months ended June 30, 2018 $ | $/boe | For the three months ended June 30, 2017 $ | $/boe |
|---|---|---|---|---|
| Revenue | 44,283 | 47.59 | 10,017 | 53.61 |
| Royalties | (2,664) | (2.86) | (566) | (3.03) |
| Operating expense | (14,767) | (15.87) | (2,750) | (14.72) |
| Transportation expense | (1,738) | (1.87) | (578) | (3.09) |
| **FIELD NETBACK ($) (1)** | **25,114** | **26.99** | **6,123** | **32.77** |

(1) Non-GAAP measure, see page 15 for details.

| ($000s, except per boe amounts) | For the six months ended June 30, 2018 $ | $/boe | For the six months ended June 30, 2017 $ | $/boe |
|---|---|---|---|---|
| Revenue | 86,758 | 46.44 | 16,153 | 54.06 |
| Royalties | (4,892) | (2.62) | (928) | (3.11) |
| Operating expense | (29,662) | (15.88) | (4,839) | (16.19) |
| Transportation expense | (2,872) | (1.54) | (922) | (3.09) |
| **FIELD NETBACK ($) (1)** | **49,332** | **26.40** | **9,464** | **31.67** |

(1) Non-GAAP measure, see page 15 for details.

## OTHER INCOME

| ($000s, except per boe amounts) | For the three months ended June 30, 2018 | June 30, 2017 | For the six months ended June 30, 2018 | June 30, 2017 |
|---|---|---|---|---|
| Processing fee income | 998 | - | 1,786 | - |
| Royalty income | 830 | - | 1,568 | - |
| Other | 260 | - | 317 | - |
| Total other income | 2,088 | - | 3,671 | - |
| Per boe ($) | 2.24 | - | 1.97 | - |

Other income for the three months ended June 30, 2018 was $2.1 million ($2.24 per boe) and nil for the three months ended June 30, 2017. The other income streams relate to processing fee income and royalty income from the Provost Acquisition on August 15, 2017. Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. The Company expects to see an increase in processing fee income as a result of Karve retaining key infrastructure in the disposition that closed on June 14, 2018. 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. The company expects to see an increase in royalty income as a result of increased drilling on the Company's fee title lands due to the disposition that closed on June 14, 2018 and increased drilling activity in the area.

## GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the three months ended June 30, 2018 and June 30, 2017:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Staff and consulting costs | 2,669 | 1,136 | 4,296 | 1,571 |
| Professional fees | 188 | 131 | 409 | 164 |
| Office and rent costs | 617 | 358 | 1,030 | 521 |
| Other | 364 | 51 | 566 | 114 |
| General and administration expense (Gross) | 3,837 | 1,676 | 6,301 | 2,370 |
| Capitalized G&A and overhead recovery | (335) | (211) | (1,176) | (519) |
| General and administration expense (Net) | 3,502 | 1,465 | 5,125 | 1,851 |
| Per boe ($) | 3.76 | 7.84 | 2.74 | 6.19 |

General and administrative expenses (net) for the three months ended June 30, 2018 were $3.5 million ($3.76 per boe) and $1.5 million ($7.84 per boe) for the three months ended June 30, 2017. The increase in gross G&A during the three months ended June 30, 2018 compared to the three months ended June 30, 2017 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 $48,000 (three months ended June 30, 2017 - $65,000) 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 three months ended | | For the six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| General and administration expense (Net) | 3,502 | 1,465 | 5,125 | 1,851 |
| Non-cash deferred lease expense | (48) | (65) | (95) | (130) |
| Cash general and administration expense (Net) | 3,454 | 1,400 | 5,030 | 1,721 |
| Per boe ($) | 3.71 | 7.49 | 2.69 | 5.76 |

## INTEREST INCOME

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Interest income | 39 | 26 | 52 | 86 |
| Per boe ($) | 0.04 | 0.14 | 0.03 | 0.29 |

Interest income relates to interest earned on bank deposits and short-term investments. Interest income increased to $39,000 for the three months ended June 30, 2018 compared to $26,000 due to higher cash balances held on deposit. During the three months ended June 30, 2018, 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

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Share-based compensation - options | 1,234 | 519 | 2,498 | 1,109 |
| Share-based compensation - performance warrants | 811 | 1,806 | 1,632 | 2,581 |
| Share based compensation expense | 2,045 | 2,325 | 4,130 | 3,690 |
| Per boe ($) | 2.20 | 12.44 | 2.21 | 12.35 |

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.

SBC expense related to stock options for the three months ended June 30, 2018 was $1.2 million (three months ended June 30, 2017 - $519,000) and SBC expense related to performance warrants for the three months ended June 30, 2018 was $811,000 (three months ended June 30, 2017 - $994,000) using the graded vesting method.

As at June 30, 2018, 13.3 million stock options and 33.6 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 $0.75 per option and $0.47 per warrant.

At June 30, 2018, 2.8 million stock options and 6.5 million performance warrants were exercisable.

## DEPLETION, DEPRECIATION AND AMORTIZATION

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 three months ended June 30, 2018, depletion expense increased to $10.4 million (three months ended June 30, 2017 - $3.4 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 three months ended June 30, 2018, due to an increase in the reserve base from the acquired Provost assets.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Depletion | 10,375 | 3,363 | 20,405 | 5,399 |
| Depreciation and amortization | 11 | 3 | 22 | 7 |
| Total DD&A ($) | 10,386 | 3,366 | 20,427 | 5,406 |
| Per boe ($) | 11.16 | 18.01 | 10.94 | 18.09 |

## INCOME TAX

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Current income tax expense | 743 | - | 743 | - |
| Deferred income tax expense | 1,828 | 281 | 4,663 | 566 |
| Total income tax expense (recovery) ($) | 2,571 | 281 | 5,406 | 566 |
| Per boe ($) | 2.76 | 1.50 | 2.89 | 1.89 |

As at June 30, 2018, the deferred tax liability was $2.0 million (as at December 31, 2017 - $nil) resulting in a deferred tax expense for the six months ended June 30, 2018 of $4.7 million (six months ended June 30, 2017 - $566,000) and current tax expense of $743,000 (six months ended June 30, 2017 - $nil).

## CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended June 30, 2018 consisted of the following.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Drilling | 5,993 | 3,392 | 13,776 | 8,640 |
| Completions | 4,787 | 2,215 | 15,322 | 6,366 |
| Facilities and well equipment | 5,384 | 2,141 | 12,468 | 5,040 |
| Geological and geophysical | 24 | - | 24 | - |
| Land | 544 | - | 823 | - |
| Acquistions | 1,360 | 217 | 1,360 | 289 |
| Dispositions | (30,655) | - | (30,655) | (451) |
| Office equipment | 138 | 1 | 139 | 9 |
| **TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS ($000s)** | **(12,425)** | **7,966** | **13,257** | **19,893** |

During the three months ended June 30, 2018, the Company was in spring break-up and drilled 12 (11.5 net) and completed 9 (8.9 net) horizontal Viking oil wells.

The following table outlines total gross and net wells drilled, completed and brought on production for the last six quarterly periods:

| For the quarter ended | June 30, 2018 | Mar. 31, 2018 | Dec. 31, 2017 | Sept. 30, 2017 | Jun. 30, 2017 | Mar. 31, 2017 |
|---|---|---|---|---|---|---|
| Drilled | 12 (11.5) | 25 (25.0) | 23 (22.1) | 25 (24.8) | 8 (7.9) | 14 (13.9) |
| Completed | 9 (8.9) | 25 (24.7) | 23 (22.4) | 29 (28.8) | 5 (5.0) | 9 (8.9) |
| On production | 4 (4.0) | 25 (24.7) | 23 (22.4) | 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.

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).

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**

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) | For the six months ended Jun. 30, 2018 | For the year ended Dec. 31, 2017 |
|---|---|---|
| Property, plant and equipment | 1,360 | 999 |
| Decommissioning liabilities | - | (183) |
| **FAIR VALUE OF NET ASSETS ACQUIRED** | **1,360** | **816** |
| **CONSIDERATION** | | |
| Cash | 1,360 | 816 |
| **TOTAL PURCHASE PRICE** | **1,360** | **816** |

**DISPOSITION**

On June 14, 2018, the Company closed a divesture of its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of $31.8 million. The disposition was effective March 1, 2018. The disposition includes the majority of the non-core and non-Viking oil assets acquired in the Provost Acquisition. The carrying value of assets and associated decommissioning liabilities disposed during six months ended December 31, 2018 are summarized below:

| ($000s) | |
|---|---|
| Property, plant and equipment | 40,855 |
| Exploration and evaluation assets | 228 |
| Decommissioning liabilities | (13,284) |
| Net working capital | 2,856 |
| **CARRYING VALUE OF NET ASSETS DISPOSED** | **30,655** |
| **CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS** | **30,655** |

As a result of the disposition, the Company's tax pools have been reduced by 80% Canadian Oil and Gas Property Expense (COGPE) and 20% - Class 41 of the proceeds received.

**OTHER LONG-TERM ASSET**

On June 14, 2018 the Company acquired a 40% shareholding in a privately held oil and gas company ("PrivateCo") for $3 million in conjunction with the non-core asset disposition. As the Company has significant influence over PrivateCo's operations, it accounts for the investment using the equity method.

| ($000s) | As at Jun. 30, 2018 | As at Dec. 31, 2017 |
|---|---|---|
| Balance, beginning of period | 3,000 | - |
| Equity share of loss | (1,354) | - |
| **BALANCE, END OF PERIOD** | **1,646** | **-** |

The net loss of PrivateCo for the six months ended June 30, 2018 was $3.4 million, primarily due to unrealized hedging losses of PrivateCo on derivative instruments. The equity investment is subject to significant volatility due to changes in commodity prices. The Company's 40% equity share of net loss is $1.4 million as at June 30, 2018.

**DECOMMISSIONING LIABILITY**

At June 30, 2018, the Company estimated a decommissioning liability of $8.9 million for the future abandonment and reclamation of Karve's properties (June 30, 2017 – $7.6 million). During the three months ended June 30, 2018, the decommissioning liability was decrease by $13.3 million due to the non-core asset disposition. $1.6 million is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $7.3 million of estimated decommissioning liability 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 $125.0 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 %. At June 30, 2018, a 1 % decrease in the discount rate used would create approximately a $6.7 million increase in the decommissioning liability, and a 1 % increase in the discount rate used would create approximately a $4.9 million decrease in the decommissioning liability.

## REVOLVING OPERATING DEMAND FACILITY

The Company has a $25.0 million revolving operating demand facility with a Canadian chartered bank (the "facility"). As at June 30, 2018, 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. As at June 30, 2018, the Company is in compliance with all covenants. The next review date is October 31, 2018.

## SHARE CAPITAL

| ($000s except for share amounts) | Number | Amount ($) |
|---|---|---|
| **Common Shares** | | |
| 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 AND JUNE 30, 2018** | **137,199,270** | **216,061** |

There were no shares issued during the three months ended June 30, 2018 or the comparative period ended June 30, 2017.

## SUPPLEMENTARY QUARTERLY INFORMATION

| For the quarter ended ($000s) | Jun. 30, 2018 | Mar. 31, 2018 | Dec. 31, 2017 | Sept. 30, 2017 |
|---|---|---|---|---|
| Petroleum and natural gas sales | 44,283 | 42,475 | 38,464 | 18,133 |
| Funds flow from operations (1) | 19,698 | 22,368 | 19,022 | 4,654 |
| **AVERAGE SALES VOLUMES** | | | | |
| Oil (bbl/d) | 5,697 | 6,210 | 5,700 | 3,283 |
| Natural gas liquids (bbl/d) | 523 | 419 | 412 | 226 |
| Natural gas (Mcf/d) | 24,032 | 22,729 | 23,792 | 12,553 |
| **TOTAL PRODUCTION (BOE/d)** | **10,225** | **10,417** | **10,078** | **5,602** |
| **AVERAGE BENCHMARK PRICES** | | | | |
| Crude oil - WTI ($US/bbl) | 67.88 | 62.91 | 55.27 | 48.18 |
| Crude oil - Canadian light sweet ($CDN/bbl) | 77.82 | 70.09 | 65.68 | 57.15 |
| Natural gas - AECO-C spot ($CDN/mcf) | 1.20 | 2.06 | 1.72 | 1.61 |
| Exchange Rate - ($US/$CAD) | 0.77 | 0.79 | 0.79 | 0.80 |
| **FIELD NETBACK ($/BOE)** | | | | |
| Revenue | 47.59 | 45.31 | 41.49 | 35.18 |
| Royalties | (2.86) | (2.38) | (2.31) | (2.37) |
| Operating expense | (15.87) | (15.89) | (14.64) | (17.29) |
| Transportation expense | (1.87) | (1.21) | (1.30) | (1.60) |
| **FIELD NETBACK ($/BOE) (1)** | **26.99** | **25.83** | **23.24** | **13.92** |
| General and administration | (3.71) | (1.68) | (3.77) | (3.50) |
| Other income | 2.24 | 1.69 | 1.97 | 1.43 |
| Interest income | 0.04 | 0.01 | 0.03 | 0.06 |
| Realized hedging | (1.32) | (0.80) | - | 0.64 |
| **CASHFLOW NETBACK ($/BOE)** | **24.24** | **25.05** | **21.47** | **12.55** |

(1) Non-GAAP measure, see page 15 for details.

| For the quarter ended ($000s) | Jun. 30, 2017 | Mar. 31, 2017 | Dec. 31, 2016 | Sept. 30, 2016 |
|---|---|---|---|---|
| Petroleum and natural gas sales | 10,017 | 6,136 | 2,601 | 1,756 |
| Funds flow from (used for) operations (1) | 4,728 | 3,080 | (340) | (652) |
| **AVERAGE SALES VOLUMES** | | | | |
| Oil (bbl/d) | 1,874 | 1,114 | 457 | 341 |
| Natural gas liquids (bbl/d) | 7 | 6 | 7 | 5 |
| Natural gas (Mcf/d) | 1,037 | 744 | 792 | 747 |
| **TOTAL PRODUCTION (BOE/d)** | **2,054** | **1,244** | **596** | **470** |
| **AVERAGE BENCHMARK PRICES** | | | | |
| Crude oil - WTI ($US/bbl) | 48.27 | 51.90 | 49.29 | 44.94 |
| Crude oil - Canadian light sweet ($CDN/bbl) | 59.72 | 64.74 | 60.76 | 54.19 |
| Natural gas - AECO-C spot ($CDN/mcf) | 2.79 | 2.69 | 3.11 | 2.36 |
| Exchange Rate - ($US/$CAD) | 0.74 | 0.76 | 0.75 | 0.77 |
| **FIELD NETBACK ($/BOE)** | | | | |
| Revenue | 53.61 | 54.82 | 47.45 | 40.59 |
| Royalties | (3.03) | (3.23) | (2.80) | (2.47) |
| Operating expense | (14.72) | (18.66) | (29.74) | (38.14) |
| Transportation expense | (3.09) | (3.07) | (2.34) | (2.03) |
| **FIELD NETBACK ($/BOE) (1)** | **32.77** | **29.86** | **12.57** | **(2.05)** |
| General and administration | (7.84) | (3.45) | (23.43) | (14.12) |
| Interest income | 0.14 | 0.54 | 1.81 | 1.50 |
| Realized hedging | 1.06 | - | - | - |
| **CASHFLOW NETBACK ($/BOE)** | **26.13** | **26.95** | **(9.05)** | **(14.67)** |

(1) Non-GAAP measure, see page 15 for details.

During the quarter of June 30, 2018, the Company's daily production decreased slightly from the quarter ended March 31, 2018 due to the close of the non-core asset disposition on June 14, 2018.

## NET INCOME SUMMARY

| | For the three months ended June 30, 2018 | | For the three months ended June 30, 2017 | |
|---|---|---|---|---|
| ($000s, except per boe amounts) | $ | $/boe | $ | $/boe |
| Petroleum and natural gas sales | 44,283 | 47.59 | 10,017 | 53.61 |
| Royalties | (2,664) | (2.86) | (566) | (3.03) |
| **NET REVENUE** | **41,619** | **44.73** | **9,451** | **50.58** |
| Other income | 2,088 | 2.24 | - | - |
| Gain (loss) on financial derivative contracts | (1,915) | (2.06) | 329 | 1.76 |
| Loss on investment (NOTE 8) | (1,354) | (1.46) | - | - |
| Interest income | 39 | 0.04 | 26 | 0.14 |
| **TOTAL REVENUE AND OTHER INCOME** | **40,477** | **43.49** | **9,806** | **52.48** |
| Operating | 14,767 | 15.87 | 2,750 | 14.72 |
| Transportation | 1,738 | 1.87 | 578 | 3.09 |
| General and administration | 3,502 | 3.76 | 1,465 | 7.84 |
| Depletion, depreciation and amortization | 10,386 | 11.16 | 3,366 | 18.01 |
| Accretion | 347 | 0.37 | 137 | 0.73 |
| Share-based compensation | 2,045 | 2.20 | 2,325 | 12.44 |
| Exploration and evaluation - expiries | 156 | 0.17 | 246 | 1.32 |
| Transaction costs | 336 | 0.36 | 202 | 1.08 |
| **INCOME (LOSS) FROM OPERATIONS BEFORE TAXES** | **7,200** | **7.73** | **(1,263)** | **(6.75)** |
| Current income tax expense | 743 | 0.80 | - | - |
| Deferred income tax expense | 1,828 | 1.96 | 281 | 1.50 |
| **NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)** | **4,629** | **4.97** | **(1,544)** | **(8.25)** |

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at June 30, 2018 are as follows:

| ($000s) | 2018 | 2019 | 2020 | 2021 | Therafter | Total |
|---|---|---|---|---|---|---|
| Operating leases | 236 | 543 | 597 | 164 | - | 1,540 |
| Pipeline transportation | 612 | 1,858 | 1,453 | 1,393 | 2,548 | 7,864 |
| **Total annual commitments** | **848** | **2,401** | **2,050** | **1,557** | **2,548** | **9,404** |

Deferred lease liability of $434,000 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.

## CAPITAL RESOURCES AND LIQUIDITY

### EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at June 30, 2018, there were 137,199,270 common shares outstanding (June 30, 2017 - 64,752,604).

As at August 8, 2018, the date of this MD&A, there were 137,199,270 common shares, 13,077,260 stock options and 32,935,500 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

### Stock Option Grant

Subsequent to June 30, 2018, 125,000 stock options were granted to certain employee/s of the Company at an exercise price of $3.00 per share under the Company's Stock Option Plan.

## 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 June 30, 2018.

## 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 three months ended | | For the six months ended | |
|---|---|---|---|---|
| ($000s) | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| **Cash flow from continuing operations** | 18,447 | 4,121 | 41,179 | 5,256 |
| Change in non-cash working capital from operating activities | 1,251 | 607 | 888 | 2,552 |
| **FUNDS FLOW FROM OPERATIONS** | **19,698** | **4,728** | **42,067** | **7,808** |
| Transaction costs | 336 | 202 | 336 | 202 |
| Decommissioning expenditures | 1,778 | 18 | 2,896 | 18 |
| **ADJUSTED FUNDS FLOW FROM OPERATIONS** | **21,812** | **4,948** | **45,299** | **8,028** |

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 (liabilities) 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.

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Clifford Brown
Vice President, Engineering

Sony Gill
Corporate Secretary

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