UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2018 AND MARCH 31, 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(Canadian $000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	13,455	11,524
Trade and other receivables (NOTE 5)	19,776	18,614
Prepaids and deposits (NOTE 6)	7,074	6,030
Derivative assets (NOTE 18)	-	54
TOTAL CURRENT ASSETS	40,305	36,222
Assets held for sale (NOTE 9)	39,791	-
Property, plant and equipment (NOTE 10)	174,580	198,573
Exploration and evaluation (NOTE 11)	22,828	23,281
Deferred income tax	-	2,607
TOTAL ASSETS	**277,504**	**260,683**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 7)	32,510	25,059
Derivative liability (NOTE 18)	2,176	-
Decommissioning liability (NOTE 13)	1,044	3,945
TOTAL CURRENT LIABILITIES	**35,730**	**29,004**
Liabilities associated with assets held for sale (NOTE 9)	12,602	**-**
Deferred lease liability (NOTE 17)	386	339
Decommissioning liability (NOTE 13)	9,968	20,266
Deferred income tax liability	228	-
TOTAL LIABILITIES	**58,914**	**49,609**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 14)	216,061	216,061
Contributed surplus (NOTE 14)	14,300	12,215
Accumulated deficit	(11,771)	(17,202)
TOTAL SHAREHOLDERS' EQUITY	**218,590**	**211,074**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**277,504**	**260,683**

COMMITMENTS (NOTE 17)
SUBSEQUENT EVENTS (NOTE 22)

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

Approved on behalf of the Board of Directors:

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

Donald A. Engle
Chairman of the Board

James C. Lough
Director

KARVE ENERGY INC

CONSOLIDATED STATEMENT OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	For the three months ended	
(Canadian $000s, except per share amounts)	Mar. 31, 2018	Mar. 31, 2017
REVENUE		
Petroleum and natural gas sales (NOTE 20)	42,475	6,136
Royalties	(2,228)	(362)
NET REVENUE	40,247	5,774
Other income (NOTE 15)	1,583	-
Gain (loss) on financial derivative contracts (NOTE 18)	(2,982)	206
Interest income	13	60
TOTAL REVENUE AND OTHER INCOME	38,861	6,040
EXPENSES		
Operating	14,895	2,089
Transportation	1,134	344
General and administration	1,623	386
Depletion, depreciation and amortization (NOTE 10)	10,041	2,040
Accretion (NOTE 13)	446	133
Share-based compensation (NOTE 16)	2,085	1,365
Exploration and evaluation - expiries (NOTE 11)	371	-
NET INCOME BEFORE TAX EXPENSE	8,266	(317)
TAX EXPENSE		
Deferred income tax expense	2,835	285
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	5,431	(602)
INCOME (LOSS) PER SHARE ($) (NOTE 14)		
Basic	0.04	(0.01)
Diluted	0.03	(0.01)

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

KARVE ENERGY INC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

	For the three months ended	
(Canadian $000s)	Mar. 31, 2018	Mar. 31, 2017
SHARE CAPITAL		
Balance, beginning of period	216,061	73,006
BALANCE, END OF PERIOD	**216,061**	**73,006**
CONTRIBUTED SURPLUS		
Balance, beginning of period	12,215	6,657
Share-based compensation (NOTE 16)	2,085	1,365
BALANCE, END OF PERIOD	**14,300**	**8,022**
DEFICIT		
Balance, beginning of period	(17,202)	(18,269)
Net income (loss) and comprehensive income (loss) for the period	5,431	(602)
BALANCE, END OF PERIOD	**(11,771)**	**(18,871)**

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

KARVE ENERGY INC

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(Canadian $000s)	For the three months ended Mar. 31, 2018	Mar. 31, 2017
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	5,431	(602)
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 10)	10,041	2,040
Accretion expense (NOTE 13)	446	133
Exploration and evaluation (NOTE 11)	371	-
Deferred lease expense (NOTE 20)	47	65
Share-based compensation (NOTE 16)	2,085	1,365
Unrealized loss (gain) on financial derivatives (NOTE 18)	2,230	(206)
Deferred income tax expense	2,835	285
Decommissioning expenditures (NOTE 13)	(1,118)	-
FUNDS FLOW FROM OPERATIONS	**22,368**	**3,080**
Change in non-cash working capital (NOTE 20)	363	(1,945)
CASH FLOW FROM OPERATING ACTIVITIES	**22,731**	**1,135**
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 11)	(325)	(1)
Property, plant and equipment (NOTE 10)	(25,357)	(12,377)
Discontinued operations	-	451
Change in non-cash working capital (NOTE 20)	4,672	(24)
CASH FLOW USED FOR INVESTING ACTIVITIES	**(21,010)**	**(11,951)**
FINANCING ACTIVITIES		
Change in non-cash working capital (NOTE 20)	210	-
CASH FLOW FROM FINANCING ACTIVITIES	**210**	**-**
Increase (decrease) in cash and cash equivalents	1,931	(10,816)
Cash and cash equivalents, beginning of period	11,524	21,905
CASH AND CASH EQUIVALENTS, END OF PERIOD	**13,455**	**11,089**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at March 31, 2018 and for the three months ended March 31, 2018 and 2017. (Tabular amounts in thousands of Canadian dollars, unless otherwise stated. Amounts in text are in Canadian dollars unless otherwise stated).

1. REPORTING ENTITY

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

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

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

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

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

The condensed interim consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

The financial statements were approved and authorized for issue by Karve's Board of Directors on May 9, 2018.

Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for the revaluation to fair value of certain financial assets and financial liabilities, as required under IFRS and described in the significant accounting policies in NOTE 3 below. The financial statements are measured and presented in Canadian dollars as the functional currency of the Company.

All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those in the December 31, 2017 audited financial statements, except as noted in NOTE 3 and for income taxes. Income taxes for interim periods are accrued using the income tax rate that would be applicable to the expected annual net income (loss).

Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Actual results may differ from such estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in NOTE 3 of the December 31, 2017 audited consolidated financial statements, except for those relating to the adoption of IFRS 9 described below:

a) Impairment of Financial Assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making assumptions and selecting inputs to the impairment calculation based on the Company's history, existing market conditions and forward-looking estimates at the end of each reporting period.

3. CHANGES IN ACCOUNTING POLICIES

a) Impact of Adoption of IFRS 9

Effective January 1, 2018, the Company retrospectively adopted IFRS 9. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2017. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized

cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). The previous IAS 39 categories of held-for-trading, loans and receivables and available for sale are eliminated.

Classification of Financial Assets and Financial Liabilities

On January 1, 2018, the Company assessed which business models apply to the financial assets and financial liabilities held by the Company and has classified its financial instruments into the following IFRS 9 categories. Changes in classification from IAS 39 did not have a significant impact on the determination of financial position or profit or loss of the Company.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES	IAS 39 Measurement	IFSR 9 Measurement
Cash and cash equivalents	Held-for-trading (FVTPL)	FVTPL
Trade and other receivables	Loans and receivables (Amortized cost)	Amortized cost
Derivative assets and liabilities	Held-for-trading (FVTPL)	FVTPL
Trade and other payables	Loans and receivables (Amortized cost)	Amortized cost

Impairment of Financial Assets

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss ("ECL") is measured at the date of initial recognition of the accounts receivable.

The Company has not recognized ECL allowances for its' cash and cash equivalents due to the virtual certainty associated with their collectability.

Within the Company's trade and other receivables, the Company assesses the lifetime ECL applicable to its commodity product sales receivables and joint venture receivables at initial recognition and re-assesses the provision at each reporting date. Lifetime ECL's are a probability-weighted estimate of all possible default events over the expected life of a financial asset and are measured as the difference between the present value of the cash flows due to the Company and the cash flows the Company expects to receive. In making an assessment as to whether the Company's financial assets are credit-impaired, the Company considers evidence of a debtor's present financial condition, the probability that a debtor will enter bankruptcy, changes in economic conditions that correlate to increased levels of default, and the term to maturity of the specified receivable. The carrying amounts of receivables are reduced by the amount of the ECL through an allowance account and losses are recognized within G&A expense in the consolidated statement of net income (loss) and comprehensive income (loss).

Based on industry experience, the Company considered financial assets to be in default when the counterparty is dissolved, or the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of collection pursuits outweigh the benefits of collection, the Company derecognizes the gross carrying amount of the asset and the associated allowance from the balance sheet.

There were no material adjustments to the carrying amounts of any of the Company's financial instruments following the adoption of IFRS 9.

b) Impact of Adoption of IFRS 15

The Company has adopted IFRS 15 as of January 1, 2018 which resulted in changes in the accounting policies of the Company. IFRS 15 replaces IAS 11, "Construction Contracts", IAS 18, "Revenue" and several revenue-related interpretations. In accordance with the transition provisions in IFRS 15, the Company has adopted the new rules retrospectively. This retrospective application did not result in any restatement of comparatives relating to the year ending December 31, 2017. The adoption of IFRS 15 did not materially impact the timing or measurement of revenue. However, IFRS 15 contains new disclosure requirements.

Recognition and Measurement

The Company generates revenue from the sale of commodities, which include crude oil, natural gas, and natural gas liquids ("NGLs"). Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money.

Net revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

In its retrospective adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to January 1, 2017 and were previously accounted for under IAS 18.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. The Company also applies a practical expedient of IFRS 15 that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The adoption of IFRS 15 did not result in any adjustments to the amounts recognized in Karve's consolidated financial statements for the year ended December 31, 2017. Additional disclosures regarding the Company's reported revenue from contracts with customers as required by IFRS 15 for the three months ended March 31, 2018 and 2017 are included in NOTE 20.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

5. TRADE AND OTHER RECEIVABLES

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Trade	18,406	16,907
Joint venture	1,479	1,744
GST	71	143
Allowance for doubtful accounts	(180)	(180)
TRADE AND OTHER RECEIVABLES	**19,776**	**18,614**

In determining the recoverability of receivables, the Company considers the age of the outstanding receivable and the credit worthiness of the counterparties. The Company recorded an allowance for doubtful accounts of $180,000 at March 31, 2018 as it determined certain joint venture receivables were uncollectible (December 31, 2017 - $180,000).

Of the Company's accounts receivable at March 31, 2018, approximately 75% was receivable from two oil marketers (51% and 24%). At December 31, 2017, approximately 71% was receivable from two oil marketers (48% and 23%). Accounts receivable aged greater than ninety days at March 31, 2018 was $585,000 (December 31, 2017 - $149,000).

6. PREPAIDS AND DEPOSITS

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Prepaids	7,001	5,957
Deposits	73	73
PREPAIDS AND DEPOSITS	**7,074**	**6,030**

Prepaids as at March 31, 2018 include $1.4 million for prepaid option premiums (December 31, 2017 - $1.2 million).

7. TRADE AND OTHER PAYABLES

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Trade	22,565	18,887
Accrued	7,708	4,987
Royalties	1,589	991
Joint venture	648	194
TRADE AND OTHER PAYABLES	**32,510**	**25,059**

8. ACQUISITIONS

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

Provost Acquisition

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

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

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

(1) The fair values allocated to the net assets acquired were estimated based on information at the time of the preparation of these interim financial statements. 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

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**

9. ASSETS HELD FOR SALE

Subsequent to March 31, 2018, the Company entered into a definitive purchase and sale agreement to divest its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of $30.3 million prior to customary closing adjustments. After closing adjustments, the Company expects to receive approximately $27.2 million. The disposition is effective March 1, 2018 and is expected to close in the second quarter of 2018. The disposition includes the majority of the non-core and non-Viking oil assets acquired in the Provost Acquisition. At March 31, 2018, this property is classified as held for sale on the consolidated statement of financial position as it is highly probable that its carrying value will be received through a sales transaction rather than through continuing use.

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

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Property, plant and equipment (NOTE 10)	39,563	-
Exploration and evaluation assets (NOTE 11)	228	-
ASSETS HELD FOR SALE	**39,791**	**-**

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

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Decommissioning liabilities (NOTE 13)	12,602	-
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	**12,602**	**-**

10. PROPERTY, PLANT AND EQUIPMENT

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

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Petroleum and natural gas assets at cost	207,249	221,202
Corporate assets at cost	216	215
Property, plant and equipment at cost	207,465	221,417
Accumulated depletion and depreciation	(32,885)	(22,844)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	**174,580**	**198,573**

Petroleum and Natural Gas Assets

COST ($000s)	
Balance at December 31, 2016	34,014
Additions	71,251
Acquisitions (NOTE 8)	117,393
Transfers from exploration and evaluation assets (NOTE 11)	1,001
Change in decommissioning provision (NOTE 13)	(2,228)
Dispositions	(229)
BALANCE AT DECEMBER 31, 2017	**221,202**
Additions	25,356
Transfers from exploration and evaluation assets (NOTE 11)	179
Change in decommissioning provision (NOTE 13)	75
Reclassified as assets held for sale (NOTE 9)	(39,563)
BALANCE AT MARCH 31, 2018	**207,249**

ACCUMULATED DEPLETION ($000s)	
Balance at December 31, 2016	1,787
Depletion	21,020
BALANCE AT DECEMBER 31, 2017	**22,807**
Depletion	10,030
BALANCE AT MARCH 31, 2018	**32,837**

NET CARRYING AMOUNT, DECEMBER 31, 2017	**198,395**
NET CARRYING AMOUNT, MARCH 31, 2018	**174,412**

At March 31, 2018, future development and production costs of $112.0 million (December 31, 2017 - $102.5 million) are included in costs subject to depletion.

There were no indicators of impairment at March 31, 2018.

General and administration costs capitalized by the Company during the three months ended March 31, 2018 were $421,000 (three months ended March 31, 2017 – $220,000).

Corporate Assets

COST ($000s)	
Balance at December 31, 2016	61
Additions	154
BALANCE AT DECEMBER 31, 2017	**215**
Additions	1
BALANCE AT MARCH 31, 2018	**216**

ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2016	13
Depreciation and amortization	24
BALANCE AT DECEMBER 31, 2017	**37**
Depreciation and amortization	11
BALANCE AT MARCH 31, 2018	**48**

NET CARRYING AMOUNT, DECEMBER 31, 2017	**178**
NET CARRYING AMOUNT, MARCH 31, 2018	**168**

11. EXPLORATION AND EVALUATION

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

($000s)	
Balance at December 31, 2016	8,478
Additions	136
Acquisitions (NOTE 8)	16,723
Disposals (NOTE 9)	(451)
Transfers to petroleum and natural gas assets (NOTE 10)	(1,001)
Expiries	(604)
BALANCE AT DECEMBER 31, 2017	**23,281**
Additions	325
Transfers to petroleum and natural gas assets (NOTE 10)	(179)
Expiries	(371)
Reclassified as assets held for sale (NOTE 9)	(228)
BALANCE AT MARCH 31, 2018	**22,828**

On February 8, 2017, the Company disposed of all undeveloped land in Fiske, Saskatchewan for total proceeds of $451,000. There was no gain or loss on this sale. As a result of this disposition, the Company no longer has operations in Saskatchewan.

There were no indicators of impairment at March 31, 2018.

12. BANK DEBT

The Company has a $25.0 million revolving operating demand facility with a Canadian chartered bank (the “facility”). As at March 31, 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 March 31, 2018, the Company is in compliance with all covenants. The next annual review date is May 31, 2018.

13. DECOMMISSIONING LIABILITY

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

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $239.0 million ($126.0 million net of Liability associated with assets held for sale on the consolidated statement of financial position), 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 March 31, 2018, a 1 % decrease in the discount rate used would create approximately a $5.9 million increase in the decommissioning liability, and a 1 % increase in the discount rate used would create approximately a $4.4 million decrease in the decommissioning liability. The following table shows changes in the decommissioning liability:

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Balance, beginning of period	24,211	7,154
Decommissioning liabilities incurred during the period	75	311
Decommissioning liabilities acquired through acquisitions (NOTE 8)	-	19,225
Decommissioning liabilities settled during the period	(1,118)	(945)
Accretion expense during the period	446	1,004
Change in estimate	-	(2,538)
Reclassified to liabilities associated with assets held for sale (NOTE 9)	(12,602)	-
BALANCE, END OF PERIOD	**11,012**	**24,211**
Decommissioning liability - current	1,044	3,945
Decommissioning liability - long term	9,968	20,266
TOTAL DECOMMISSIONING LIABILITY - END OF PERIOD	**11,012**	**24,211**

14. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

b) Issued and Outstanding Common Shares

($000s except for share amounts)	Number	Amount ($)
Common Shares		
Balance at December 31, 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 MARCH 31, 2018	**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.

c) Contributed Surplus

	As at	As at
($000s)	Mar. 31, 2018	Dec. 31, 2017
Balance, beginning of period	12,215	6,657
Share-based compensation - options	1,264	2,653
Share-based compensation - warrants	821	3,285
Transfer to share capital on exercise of options and performance warrants	-	(380)
BALANCE, END OF PERIOD	**14,300**	**12,215**

d) Per Share Amounts

	For the three months ended	
($000s except per share amounts)	Mar. 31, 2018	Mar. 31, 2017
Net income (loss) for the period	5,431	(602)
Weighted average number of shares - basic	137,199,270	64,752,604
Dilutive impact of share based compensation plans	29,311,927	-
Weighted average number of shares - diluted	**166,511,197**	**64,752,604**
Net income (loss) per share - basic	**0.04**	**(0.01)**
Net income (loss) per share - diluted	**0.03**	**(0.01)**

15. OTHER INCOME

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

	For the three months ended	
($000s)	Mar. 31, 2018	Mar. 31, 2017
Processing fee income	788	-
Royalty income	738	-
Other	57	-
TOTAL OTHER INCOME	**1,583**	**-**

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

16. SHARE-BASED COMPENSATION

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

($000s)	For the three months ended Mar. 31, 2018	Mar. 31, 2017
Share-based compensation - options	1,264	590
Share-based compensation - performance warrants	821	775
TOTAL SHARE-BASED COMPENSATION	**2,085**	**1,365**

a) Stock Options

Effective June 15, 2016, the Company adopted a new stock option plan under which officers, management, employees, directors and consultants of the Company are eligible to receive grants. Under the stock option plan, which was approved by the Board of Directors, the granted stock options vest to the grantee over a three-year period, the grantee has the right to exercise the stock options for five years from the date of the grant and the stock options terminate 30 days following the termination of the grantee's employment. All stock options vest and may be exercisable in the event of a change of control or initial public offering. The maximum number of outstanding stock options under the plan is limited to 10% of the common shares outstanding. The number of stock options and the exercise price is set by the Board of Directors at the time of grant.

During the three months ended March 31, 2018, 225,000 stock options were approved for issuance by the Board of Directors (year ended December 31, 2017 –7,496,593).

Share-based compensation related to stock options during the three months ended March 31, 2018 was $1.3 million (three months ended March 31, 2017 - $590,000).

The following table sets forth a reconciliation of the stock option plan activity from December 31, 2016 through to March 31, 2018:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2016	6,365,000	0.91
Granted	7,496,593	2.01
Exercised	(596,666)	0.92
Forefeited	(50,000)	1.00
BALANCE AT DECEMBER 31, 2017	13,214,927	1.54
Granted	225,000	2.33
Forefeited	(3,000)	2.00
BALANCE AT MARCH 31, 2018	**13,436,927**	**1.55**

There were no stock options exercised during the three months ended March 31, 2018 (year ended December 31, 2017 – 596,666) and 1.6 million stock options were exercisable at March 31, 2018 (year ended December 31, 2017 – 1.6 million).

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at March 31, 2018 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
$0.85	3.21	3,405,644	990,771
$1.00 - $1.99	3.34	2,419,690	600,897
$2.00 - $2.50	4.51	7,611,593	-
	3.97	**13,436,927**	**1,591,668**

The fair value of each option granted or acquired is estimated on the date of grant or acquisition using the Black-Scholes option pricing model with the following weighted average assumptions:

	For the three months ended	
	Mar. 31, 2018	Mar. 31, 2017
Weighted average fair value of options	1.12	0.78
Risk-free Interest rate (%)	1.99%	1.08%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	54%	56%
Weighted average grant date share price	2.33	1.61
Forfeiture rate	-	-
Expected dividend yield (%)	-	-

The expected volatility of the options granted is based on the historical volatility of publicly traded peer companies that in management's judgement have similar characteristics to the Company and are therefore a good indicator of the expected volatility of the Company.

b) Performance Warrants

There were no performance warrants issued by the Board of Directors during the three months ended March 31, 2018 (year ended December 31, 2017 – 17,937,500). The performance warrants entitle the holder to purchase one common share of the Company and have the following vesting dates and exercise prices:

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

The right to exercise the performance warrants is subject to a performance event taking place which includes the occurrence of any of the following (i) the Company raising a minimum of $25.0 million through a private placement, excluding the securities issued as part of the recapitalization that occurred in June 2016 (ii) the occurrence of an initial public offering on a recognized Canadian or U.S. stock exchange, or (iii) a change of control. Only vested performance warrants based on the schedule above will become exercisable if the Company achieves performance event (i). In the event of performance event (ii) and (iii), all performance warrants outstanding which have not vested or become exercisable in accordance with their terms shall vest and become exercisable immediately.

Share-based compensation related to performance warrants during the three months ended March 31, 2018 was $821,000 (three months ended March 31, 2017 - $775,000).

The following table sets forth a reconciliation of performance warrant activity from December 31, 2016 through to March 31, 2018:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2016	16,125,000	1.90
Granted	17,937,500	3.80
Exercised	(100,000)	1.60
Forfeited	(150,000)	2.10
BALANCE AT DECEMBER 31, 2017	**33,812,500**	**2.90**
Forfeited	(6,000)	3.80
BALANCE AT MARCH 31, 2018	**33,806,500**	**2.90**

There were no performance warrants exercised during the three months ended March 31, 2018 (year ended December 31, 2017 – 100,000) and 6.5 million performance warrants were exercisable at March 31, 2018 (December 31, 2017 – 6.5 million).

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at March 31, 2018 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
$1.50 to $2.99	3.53	15,875,000	6,530,000
$3.00 to $3.99	4.50	10,758,900	-
$4.00 to $5.00	4.50	7,172,600	-
	4.04	**33,806,500**	**6,530,000**

17. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2018 are as follows:

($000s)	2018	2019	2020	2021	Therafter	Total
Operating leases	279	503	597	164	-	1,543
Pipeline transportation	941	1,858	1,453	1,393	2,548	8,193
Total annual commitments	**1,220**	**2,361**	**2,050**	**1,557**	**2,548**	**9,736**

Deferred lease liability of $386,000 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.

18. FINANCIAL INSTRUMENTS

The Company has exposure to credit, liquidity, and foreign currency risk from its use of financial instruments. Further qualitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Karve's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

a) Fair Value of Financial Instruments

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

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

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

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

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

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

The following table summarizes Karve's financial instruments at March 31, 2018:

($000s)	Loans and receivables	Financial liabilities	Total carrying value
Assets			
Cash and cash equivalents	13,455	-	13,455
Trade and other receivables	19,776	-	19,776
Deposits	73	-	73
	33,304	**-**	**33,304**
Liabilities			
Trade and other payables	-	32,510	32,510
Derivative liability (level 2)	-	2,176	2,176
	-	**34,686**	**34,686**

The following table summarizes Karve's financial instruments at December 31, 2017:

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

b) Risk Associated with Financial Assets and Liabilities

Commodity Price Risk

Due to the volatile nature of natural gas and oil commodity prices, the Company is potentially exposed to adverse consequences if commodity prices decline. The Company is exposed to commodity price movements as part of its operations, particularly in relation to the prices received for its oil and gas production. Oil and gas is sensitive to numerous worldwide factors, many of which are beyond the Company's control. Changes in global supply and demand fundamentals in the oil and gas market and geopolitical events can significantly affect oil and gas prices. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company's oil production is sold under short-term contracts, exposing it to the risk of near-term price movements depending on marketing conditions, it is the Company's policy to hedge a portion of its crude oil sales through the use of financial derivative contracts. The Company does not apply hedge accounting to these contracts. At March 31, 2018, 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	(875)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	200	71.10	(553)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**500**	**70.77**	**(1,428)**

(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	(653)
Put option	Mar. 1/18 - Dec. 31/18	WTI	1,000	70.00	(95)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**2,500**	**66.40**	**(748)**

(1) Nymex WTI monthly average in $CAD.

The Company prepaid total put option premiums of $1.8 million. At March 31, 2018, $1.4 million 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 (NOTE 6).

Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $841,000 increase in the unrealized loss and a $5.00 USD decrease in WTI would result in a $952,000 decrease in the unrealized loss.

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

	For the three months ended	
($000s)	Mar. 31, 2018	Mar. 31, 2017
Realized loss on financial derivative contracts	(752)	-
Unrealized gain (loss) on financial derivative contracts	(2,230)	206
GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	**(2,982)**	**206**

Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. The Company offsets derivative assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. The following table summarizes the gross asset and liability positions of the Company's financial derivatives by counterparty that are offset on the consolidated statement of financial position at March 31, 2018:

($000s)	Asset	Liability	Net
Gross amount	648	(2,824)	(2,176)
Amount offset	(648)	648	-
NET AMOUNT	**-**	**(2,176)**	**(2,176)**

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the operating demand facility interest is based on prime interest rates plus interest rates ranging from prime plus 1.00 to 2.50 %, depending on the net debt to cash-flow ratio in the previous quarter. As at March 31, 2018, nil was drawn on the operating demand facility.

Liquidity Risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt, and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures, and assessing the amount of equity or debt financing available. At March 31, 2018, the Company considers itself to be well-capitalized and has working capital in excess of current commitments. The Company's financial liabilities include trade and other payables of $32.5 million (year ended December 31, 2017 - $25.1 million). All trade and other payables have contractual maturities of less than one year.

19. CAPITAL MANAGEMENT

a) Capital Base

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

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

The following table represents the net capital of the Company:

($000s)	As at Mar. 31, 2018	As at Dec. 31, 2017
Shareholders' capital	218,590	211,074
Adjusted positive working capital	7,795	11,109
CAPITAL BASE	**226,385**	**222,183**

The Company monitors its capital based primarily on its adjusted positive working capital to annualized funds flow ratio. Adjusted positive working capital and annualized funds flow are non-GAAP measures. Adjusted positive working capital is defined as working capital excluding derivative assets and current portion decommissioning liability. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital for the Company's most recent quarter, multiplied by four. To facilitate the management and control its' capital base, the Company prepares annual operating and capital expenditure budgets. The budgets are updated when critical factors change. These include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and Company specific factors or assumptions such as the Company's drilling results and its production profile. The Company's Board of Directors approves the budget and changes thereto. At March 31, 2018, the Company had adjusted positive working capital of $7.8 million (December 31, 2017 - $11.1 million).

The Company's share capital is not subject to external restrictions but the Company does have financial covenants with regards to its' revolving operating demand facility. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts. The Company would be considered to be in breach of its credit agreement if the minimum working capital ratio was not maintained, unless consented to by the lender. As at March 31, 2018, the Company is in compliance with all covenants.

20. SUPPLEMENTAL INFORMATION

The following table presents the composition of changes in non-cash working capital and the allocation to operating and investing activities:

($000s)	For the three months ended Mar. 31, 2018	Mar. 31, 2017
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 5)	(1,162)	(1,426)
Prepaids and deposits (NOTE 6)	(1,044)	(179)
Trade and other payables (NOTE 7)	7,451	(364)
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**5,245**	**(1,969)**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	363	(1,945)
Investing activities	4,672	(24)
Financing activities	210	-
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**5,245**	**(1,969)**

In the "Operating Activities" line in the consolidated statement of cash flows, non-cash deferred lease expense of $47,000 (three months ended March 31, 2017 - $65,000) relates to the difference between cash lease payments and accounting operating lease payments which are recognized on a straight-line basis over the life of the lease (NOTE 17).

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

	For the three months ended	
($000s)	Mar. 31, 2018	Mar. 31, 2017
Crude oil	35,698	5,900
Natural gas liquids	4,728	32
Natural gas	2,049	204
TOTAL PETROLEUM AND NATURAL GAS SALES	**42,475**	**6,136**

21. RELATED PARTY DISCLOSURES

The Company incurred a total of $34,000 (three months ended March 31, 2017 -$94,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at March 31, 2018, $22,000 in fees for these legal services are included in accounts payable (year ended December 31, 2017 - $57,000).

22. SUBSEQUENT EVENTS

Non-Core Asset Divestiture (NOTE 9)

Subsequent to March 31, 2018, the Company entered into a definitive purchase and sale agreement to divest its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of $30.3 million prior to customary closing adjustments. After closing adjustments, the Company expects to receive approximately $27.2 million. The disposition is effective March 1, 2018 and is expected to close in the second quarter of 2018. The disposition includes the majority of the non-core and non-Viking oil assets acquired in the Provost Acquisition.