MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED

MARCH 31, 2018 AND MARCH 31, 2017

May 9, 2018

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our March 28, 2018 letter to shareholders.

In the first quarter of 2018, we produced an average of 10,417 BOE/d (64% liquids), up from 1,244 BOE/d (90% liquids) in the first quarter of 2017, showing growth in production of 737% year over year. While production has increased year over year, per boe operating expenses have decreased 15% from $18.66 in the first quarter of 2017 to $15.89 in the first quarter of 2018. As at March 31, 2018 we were in a positive working capital position of $7.8 million with an undrawn $25.0 million credit facility adding to our financial strength.

From inception to May 9, 2018, we have brought a total of 101 (99.7 net) horizontal Viking oil wells on production, including 10 (9.9 net) wells in 2016, 66 (65.1 net) wells in 2017 and 25 (24.7 net) wells to date in 2018. We continue to be encouraged by the results on both the original Consort/Hamilton Lake property as well as the Provost properties.

Our 2018 capital program now consists of spending a total of $128.5 million (not including acquisitions or dispositions) which includes the drilling of 100 gross (97 net) horizontal Viking oil wells for $99.1 million and waterflood, facility and abandonment capital of $26.7 million. In 2018, we are planning to reactivate and implement a waterflood on six sections of land while abandoning approximately 121 wells throughout the year. To support our 2018 capital program, we have hedged oil volumes of 500 bbl/d at an average price of Cdn $70.77 WTI and have purchased floors at an average of Cdn $66.40 WTI for 2,500 bbl/d of production.

On April 19, 2018, we announced that we have entered into a definitive purchase and sale agreement to divest our non-core shallow gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of $30.25 million (prior to customary closing adjustments). The disposition includes the majority of the non-core and non-Viking assets acquired as part of Karve's transformative Q3 2017 acquisition. Production from the disposal properties averaged approximately 3,500 BOE/d (57% gas) in March 2018 with operating costs of approximately $19.00 per BOE and netbacks of $11.00 per BOE. Importantly, the transaction significantly reduces our total well count, removing 1,922 gross wellbores including 792 producing and 636 suspended wells. This results in a material reduction in our asset retirement obligation while also improving our Licensee Liability Rating with the Alberta Energy Regulator. We will strategically retain key infrastructure and all producing and prospective Viking light oil assets and fee title lands acquired as part of Karve's transformative Q3 2017 acquisition. Closing of the transaction is expected in the second quarter of 2018.

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

You will find enclosed the Karve Energy Inc. unaudited interim consolidated financial statements and MD&A for the three months ended March 31, 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 March 31, 2018 ("three months ended March 31, 2018"). It is dated May 9, 2018 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2017 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	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Mar. 31, 2018	Mar. 31, 2017
Net income (loss)	5,431	(602)
Per share - basic (1)	0.04	(0.01)
Per share - diluted (1)	0.03	(0.01)
Funds flow from operations (1)	22,368	3,080
Per share - basic (1)	0.16	0.05
Per share - diluted (1)	0.13	0.05
Adjusted funds flow from operations (1)	23,486	3,080
Per share - basic (1)	0.17	0.05
Per share - diluted (1)	0.14	0.05
Capital expenditures	25,403	12,306
Net acquisitions (dispositions)	279	(379)
Total net capital expenditures	25,682	11,927
Adjusted positive working capital (1)	7,795	14,422
Total assets	277,504	79,216
Shares outstanding, weighted average (000s)	137,199	64,753
Shares outstanding, end of period (000s)	137,199	64,753
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	6,210	1,114
NGLs (bbl/d)	419	6
Natural gas (mcf/d)	22,729	744
Total (boe/d)	**10,417**	**1,244**
Average sales prices (excludes hedging gains and losses)		
Oil ($/bbl)	63.88	58.85
NGLs ($/bbl)	54.32	60.96
Natural gas ($/mcf)	2.31	3.05
Boe basis ($/boe)	**45.31**	**54.82**
Field netback ($/boe)		
Sales price	45.31	54.82
Royalties	(2.38)	(3.23)
Operating expense	(15.89)	(18.66)
Transportation expense	(1.21)	(3.07)
Field netback (1)	**25.83**	**29.86**

(1) Non-GAAP measure, see page 14 for details.

SALES VOLUMES

Sales volumes averaged 10,417 boe/d during the three months ended March 31, 2018 compared to 1,244 boe/d for three months ended March 31, 2017. The increase in sales volumes is due to the Provost acquisition which closed on August 15, 2017 and bringing 25 gross (24.7 net) horizontal wells on production during the three months ended March 31, 2018 for a total of 101 (99.7 net) wells since inception, whereas the comparative period includes the results from the Viking property acquisition which closed on June 15, 2016 and only the first 24 gross (23.9 net) horizontal wells on production in the comparative period after closing the Viking property acquisition.

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 64% liquids. It is management's intention to increase the liquids weighting of the acquired property through horizontal drilling of Viking light oil wells and disposing of non-core gas weighted assets.

The Q1 2018 exit rate, representing March 2018 average monthly production was 11,500 boe/d.

	For the three months ended	
	Mar. 31, 2018	Mar. 31, 2017
Sales volumes		
Oil (bbl/d)	6,210	1,114
NGLs (bbl/d)	419	6
Natural gas (mcf/d)	22,729	744
Total (boe/d)	**10,417**	**1,244**

SALES PRICES AND REVENUE

For the three months ended March 31, 2018, the Company generated revenue of $42.5 million (three months ended March 31, 2017- $6.1 million) on average sales volumes of 10,417 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the three months ended March 31, 2018 was $45.31 compared to $54.82 for the three months ended March 31, 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 of the acquired property through horizontal drilling of Viking light oil wells and disposing of non-core gas weighted assets.

	For the three months ended	
KARVE AVERAGE REALIZED PRICE (1)	Mar. 31, 2018	Mar. 31, 2017
Revenue ($000s)	42,475	6,136
Oil ($/bbl)	63.88	58.85
NGLs ($/bbl)	54.32	60.96
Natural gas ($/mcf)	2.31	3.05
Karve realized price ($/boe)	**45.31**	**54.82**
AVERAGE BENCHMARK PRICES (2)		
Crude oil - WTI ($US/bbl)	62.91	51.90
Crude oil - Canadian light sweet ($CDN/bbl)	70.09	64.74
Natural gas - AECO-C spot ($CDN/mcf)	2.06	2.69
Exchange Rate - ($US/$CAD)	0.79	0.76

(1) Excludes hedging gains and losses.

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

DERIVATIVE CONTRACTS

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

At 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.

The components of the 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**

At March 31, 2018, the fair value of the financial derivative contract was a current liability position of $2.2 million resulting in an unrealized loss of $2.2 million. 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 March 31, 2018 and may be different from what will eventually be realized. The Company recognized a realized loss of $752,000 for the three months ended March 31, 2018 (three months ended March 31, 2017 – nil).

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 unrealized loss on May 8, 2018 (day prior to financial statement release) was $3.2 million.

ROYALTIES

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2018	Mar. 31, 2017
Royalties	2,228	362
Royalties as a % of revenue	5.2%	5.9%
Per boe ($)	2.38	3.23

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended March 31, 2018 was $2.2 million ($2.38 per boe) compared to $362,000 ($3.23 per boe) for the three months ended March 31, 2017. For the three months ended March 31, 2018, the Company's royalty rate was 5.2% of revenues (three months ended March 31, 2017 – 5.9%). As horizontal light oil Viking wells come off the royalty holiday, we expect to see royalties increase modestly over time.

OPERATING EXPENSE

($000s, except per boe amounts)	For the three months ended Mar. 31, 2018	Mar. 31, 2017
Operating expense	14,895	2,089
Per boe ($)	15.89	18.66

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 $14.9 million ($15.89 per boe) during the three months ended March 31, 2018 and $2.1 million ($18.66 per boe) for the three months ended March 31, 2017. Operating expenses per boe decreased during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to new horizontal oil wells brought on production and efficiencies in operating the assets over time.

TRANSPORTATION EXPENSE

($000s, except per boe amounts)	For the three months ended Mar. 31, 2018	Mar. 31, 2017
Transportation expense	1,134	344
Per boe ($)	1.21	3.07

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 $1.1 million ($1.21 per boe) during the three months ended March 31, 2018 and $344,000 ($3.07 per boe) for the three months ended March 31, 2017. The decrease in transportation expense per boe in the current period is due to less trucking of oil production on a percentage basis and higher natural gas production as a result of the Provost Acquisition which costs less to transport, whereas the majority of oil sales were trucked to sales points in the comparative period ended March 31, 2017.

FIELD NETBACK

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

	For the three months ended March 31, 2018		For the three months ended March 31, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	42,475	45.31	6,136	54.82
Royalties	(2,228)	(2.38)	(362)	(3.23)
Operating expense	(14,895)	(15.89)	(2,089)	(18.66)
Transportation expense	(1,134)	(1.21)	(344)	(3.07)
FIELD NETBACK ($) (1)	**24,218**	**25.83**	**3,341**	**29.86**

(1) Non-GAAP measure, see page 14 for details.

OTHER INCOME

($000s, except per boe amounts)	For the three months ended Mar. 31, 2018	Mar. 31, 2017
Processing fee income	788	-
Royalty income	738	-
Other	57	-
Total other income	1,583	-
Per boe ($)	1.69	-

Other income for the three months ended March 31, 2018 was $1.6 million ($1.69 per boe) and nil for the three months ended March 31, 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 which were acquired in the Provost Acquisition. Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests which were acquired in the Provost Acquisition.

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the three months ended March 31, 2018 and March 31, 2017:

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2018	Mar. 31, 2017
Staff and consulting costs	1,628	435
Professional fees	221	33
Office and rent costs	413	163
Other	202	63
General and administration expense (Gross)	2,464	694
Capitalized G&A and overhead recovery	(841)	(308)
General and administration expense (Net)	1,623	386
Per boe ($)	1.73	3.45

General and administrative expenses (net) for the three months ended March 31, 2018 were $1.6 million ($1.73 per boe) and $386,000 ($3.45 per boe) for the three months ended March 31, 2017. The increase in gross G&A during the three months ended March 31, 2018 compared to the three months ended March 31, 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 $47,000 (three months ended March 31, 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	
	Mar. 31, 2018	Mar. 31, 2017
General and administration expense (Net)	1,623	386
Non-cash deferred lease expense	(47)	(65)
Cash general and administration expense (Net)	1,576	321
Per boe ($)	1.68	2.87

INTEREST INCOME

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2018	Mar. 31, 2017
Interest income	13	60
Per boe ($)	0.01	0.54

Interest income relates to interest earned on bank deposits and short-term investments. Interest income decreased to $13,000 for the three months ended March 31, 2018 compared to $60,000 due to lower cash balances held on deposit. During the three months ended March 31, 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	
($000s, except per boe amounts)	Mar. 31, 2018	Mar. 31, 2017
Share-based compensation - options	1,264	590
Share-based compensation - performance warrants	821	775
Share based compensation expense	2,085	1,365
Per boe ($)	2.22	12.19

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.

During the three months ended March 31, 2018, 225,000 stock options were approved for issuance by the Board of Directors at a weighted average exercise price of $2.33 per option (year ended December 31, 2017 – 7,496,593). The weighted average fair value of options granted during the three months ended is $1.12 per option.

SBC expense related to stock options for the three months ended March 31, 2018 was $1.3 million (three months ended March 31, 2017 - $590,000) and SBC expense related to performance warrants for the three months ended March 31, 2018 was $821,000 (three months ended March 31, 2017 - $775,000) using the graded vesting method.

As at March 31, 2018, 13.4 million stock options and 33.8 million performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.55 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 March 31, 2018, 1,591,668 stock options and 6,530,000 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 March 31, 2018, depletion expense increased to $10.0 million (three months ended March 31, 2017 - $2.0 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 March 31, 2018, due to an increase in the reserve base from the acquired Provost assets.

	For the three months ended	
($000s, except per boe amounts)	Mar. 31, 2018	Mar. 31, 2017
Depletion	10,030	2,037
Depreciation and amortization	11	3
Total DD&A ($)	10,041	2,040
Per boe ($)	10.71	18.22

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three months ended March 31, 2018 consisted of the following.

	For the three months ended	
($000s)	Mar. 31, 2018	Mar. 31, 2017
Drilling	7,783	5,248
Completions	10,535	4,151
Facilities and well equipment	7,084	2,899
Land acquisitions	279	72
Dispositions	-	(451)
Office equipment	1	8
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS ($000s)	**25,682**	**11,927**

During the three months ended March 31, 2018, the Company drilled 25 (25 net) and completed 25 (24.7 net) horizontal Viking oil wells, 4 (3.7 net) of which were drilled but not completed at December 31, 2017.

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	For the quarter ended Mar. 31, 2018	For the quarter ended Dec. 31, 2017	For the quarter ended Sept. 30, 2017	For the quarter ended Jun. 30, 2017	For the quarter ended Mar. 31, 2017	For the quarter ended Dec. 31, 2016
Drilled	25 (25.0)	23 (22.1)	25 (24.8)	8 (7.9)	14 (13.9)	10 (9.9)
Completed	25 (24.7)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.9)
On production	25 (24.7)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.9)

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

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**

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	39,563	-
Exploration and evaluation assets	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	12,602	-
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	**12,602**	**-**

DECOMMISSIONING LIABILITY

At March 31, 2018, the Company recorded a decommissioning liability of $23.6 million for the future abandonment and reclamation of Karve's properties (March 31, 2017 – $7.4 million). During the three months ended March 31, 2018, $12.6 million was reclassified as Liabilities associated with assets held for sale on the consolidated statement of financial position, $1.0 million is presented as a current liability as managements intends to decommission the wells within the next 12 months and the remaining $10.0 million is presented as a long term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $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.

REVOLVING OPERATING DEMAND FACILITY

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.

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 MARCH 31, 2018	**137,199,270**	**216,061**

There were no shares issued during the three months ended March 31, 2018 or the comparative period ended March 31, 2017.

SUPPLEMENTARY QUARTERLY INFORMATION

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

(1) Non-GAAP measure, see page 14 for details.

For the quarter ended ($000s)	For the quarter ended Jun. 30, 2017	For the quarter ended Mar. 31, 2017	For the quarter ended Dec. 31, 2016	For the quarter ended Sept. 30, 2016
Petroleum and natural gas sales	10,017	6,136	2,601	1,756
Funds flow from (used for) operations (1)	4,728	3,080	(340)	(652)
AVERAGE SALES VOLUMES				
Oil (bbl/d)	1,874	1,114	457	341
Natural gas liquids (bbl/d)	7	6	7	5
Natural gas (Mcf/d)	1,037	744	792	747
TOTAL PRODUCTION (BOE/d)	**2,054**	**1,244**	**596**	**470**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($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 14 for details.

During the quarter ended March 31, 2018, the Company's daily production increased due to a full quarter of production from the Provost acquisition which closed on August 15, 2017 and successfully bringing 25 (24.7 net) horizontal Viking wells on production. The increase in field netback relates to higher realized pricing due to higher benchmark commodity pricing and a change in product mix from the successful drilling of horizontal Viking oil wells which has increased the liquids weighting of the acquired Provost assets from 45% at time of acquisition to 53% during the quarter ended March 31, 2018.

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

NET INCOME SUMMARY

	For the three months ended March 31, 2018		For the three months ended March 31, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	42,475	45.31	6,136	54.82
Royalties	(2,228)	(2.38)	(362)	(3.23)
NET REVENUE	**40,247**	**42.93**	**5,774**	**51.59**
Other income	1,583	1.69	-	-
Gain (loss) on financial derivative contracts	(2,982)	(3.18)	206	1.84
Interest income	13	0.01	60	0.54
TOTAL REVENUE AND OTHER INCOME	**38,861**	**41.45**	**6,040**	**53.97**
Operating	14,895	15.89	2,089	18.66
Transportation	1,134	1.21	344	3.07
General and administration	1,623	1.73	386	3.45
Depletion, depreciation and amortization	10,041	10.71	2,040	18.22
Accretion	446	0.48	133	1.19
Share-based compensation	2,085	2.22	1,365	12.19
Exploration and evaluation - expiries	371	0.40	-	-
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	**8,266**	**8.81**	**(317)**	**(2.81)**
Deferred income tax expense	2,835	3.02	285	2.55
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**5,431**	**5.79**	**(602)**	**(5.36)**

CONTRACTUAL OBLIGATIONS AND 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.

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).

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at March 31, 2018, there were 137,199,270 common shares outstanding (March 31, 2017 - 64,752,604).

As at May 9, 2018, the date of this MD&A, there were 137,199,270 common shares, 13,436,927 stock options and 33,806,500 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

Non-Core Asset Divestiture

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.

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 March 31, 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	
($000s)	Mar. 31, 2018	Mar. 31, 2017
Cash flow from continuing operations	22,731	1,135
Change in non-cash working capital from operating activities	(363)	1,945
FUNDS FLOW FROM OPERATIONS	**22,368**	**3,080**
Decommissioning expenditures	1,118	-
ADJUSTED FUNDS FLOW FROM OPERATIONS	**23,486**	**3,080**

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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[A] Denotes member of the Audit Committee.
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