KARVE ENERGY INC

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND NINE MONTHS ENDED

SEPTEMBER 30, 2018 AND SEPTEMBER 30, 2017

November 7, 2018

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our August 8, 2018 letter to shareholders.

In the third quarter of 2018, we drilled 52 gross (49.1 net), completed 49 gross (46.1 net) and brought on 44 gross (41.2 net) horizontal wells. From inception to September 30, 2018, we have brought a total of 149 gross (145.0 net) horizontal Viking oil wells on production. Our production averaged 7,325 BOE/d (70% liquids) in the third quarter of 2018 and our current production is 9,500 BOE/d (72% liquids). As at September 30, 2018 we were in a positive working capital position of $3.1 million.

As oil price differentials widened toward the end of the third quarter, the Company made the decision to delay the completion of a number of drilled wells. In the fourth quarter of 2018, we will complete certain wells to prove up our asset base but will leave most of the wells drilled and not completed. As such, the 2018 capital program will be reduced from $142 million (excluding acquisitions and dispositions) to $124 million. With the significant increase in oil price differentials that are expected to continue through the fourth quarter of 2018, the Company expects our realized oil price to decrease by approximately 40% in the fourth quarter than was realized in the third quarter of 2018. We will continue to monitor the oil price differential environment closely and will manage our business to maintain a strong balance sheet.

On October 31, 2018, the Company closed an acquisition to acquire Viking oil and gas assets in the Alliance area of Alberta for total consideration of $12.1 million, subject to customary closing adjustments. The effective date of the acquisition was May 1, 2018. The assets acquired complement Karve's existing asset base and are currently producing approximately 900 BOE/d (72% liquids), and include significant infrastructure and future horizontal Viking drilling locations in the area. Proforma Company production is approximately 9,500 BOE/d (72% liquids).

In this challenging commodity and differential environment, we will continue to manage our balance sheet in a prudent manner. We will also continue to pursue and search out opportunistic acquisitions that will add and maximize value for our shareholders.

You will find enclosed the Karve Energy Inc. unaudited condensed interim consolidated financial statements and MD&A for the three and nine months ended September 30, 2018. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com. We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2018 to September 30, 2018 ("nine months ended September 30, 2018"). It is dated November 7, 2018 and should be read in conjunction with the unaudited interim consolidated financial statements for the three months and nine months ended September 30, 2018 and the audited consolidated financial statements for the year ended December 31, 2017. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The MD&A contains non-generally accepted accounting principles ("non-GAAP") measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with Karve's disclosure under "Non-GAAP Measurements" and "Forward-Looking Information and Statements" included at the end of this MD&A. All amounts are in Canadian dollars unless otherwise noted.

DESCRIPTION OF THE COMPANY

Karve is a growth-oriented, private oil and natural gas company whose principal business activities are the acquisition, exploration and development of oil and natural gas properties in Western Canada. The Company was incorporated under the laws of the Province of Alberta on January 30, 2014, under the name "1799380 Alberta Ltd.". On June 16, 2014, the Company changed its name to "Bruin Oil & Gas Inc." ("Bruin") and on September 15, 2016, the Company changed its name to "Karve Energy Inc.". The consolidated financial information of the Company is comprised of Karve and its wholly owned subsidiary "DTC Energy Inc.".

OPERATIONAL AND FINANCIAL SUMMARY

	For the three months ended		For the nine months ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Net income (loss)	8,103	(2,632)	18,163	(4,778)
Per share - basic	0.06	(0.03)	0.13	(0.06)
Per share - diluted	0.06	(0.03)	0.13	(0.06)
Funds flow from operations (1)	20,690	4,654	62,756	12,462
Per share - basic (1)	0.15	0.05	0.46	0.16
Per share - diluted (1)	0.14	0.05	0.44	0.16
Adjusted funds flow from operations (1)	21,933	6,521	67,231	14,549
Per share - basic (1)	0.16	0.07	0.49	0.19
Per share - diluted (1)	0.15	0.07	0.47	0.19
Capital expenditures (before acquisitions and dispositions)	51,393	27,584	93,945	47,920
Net acquisitions (dispositions)	369	120,518	(28,926)	120,075
Total net capital expenditures	51,762	148,102	65,019	167,995
Adjusted positive working capital (1)	3,103	15,625	3,103	15,625
Total assets	288,928	253,706	288,928	253,706
Shares outstanding, weighted average (000s)	137,224	99,429	137,254	76,438
Shares outstanding, end of period (000s)	137,269	137,049	137,269	137,049
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	4,807	3,283	5,566	2,098
NGLs (bbl/d)	291	226	410	80
Natural gas (mcf/d)	13,359	12,553	20,006	4,821
Total (boe/d)	**7,325**	**5,602**	**9,310**	**2,982**
Average sales prices (excludes hedging gains and losses)				
Oil ($/bbl)	74.91	51.45	71.56	54.37
NGLs ($/bbl)	55.39	41.70	54.91	42.68
Natural gas ($/mcf)	1.29	1.49	1.69	1.67
Boe basis ($/boe)	**55.41**	**35.18**	**48.82**	**42.11**
Field netback ($/boe)				
Sales price	55.41	35.18	48.82	42.11
Royalties	(4.77)	(2.37)	(3.19)	(2.64)
Operating expense	(15.50)	(17.29)	(15.78)	(16.89)
Transportation expense	(1.71)	(1.60)	(1.58)	(2.15)
Field netback (1)	**33.43**	**13.92**	**28.27**	**20.43**

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

SALES VOLUMES

Sales volumes averaged 7,325 boe/d during the three months ended September 30, 2018 compared to 5,602 boe/d for three months ended September 30, 2017. The increase in sales volumes from the three months ended September 30, 2017 is due to the Provost acquisition which closed on August 15, 2017 , bringing 44 gross (41.2 net) horizontal wells on production during the three months ended September 30, 2018 for a total of 149 (145.0 net) wells since inception. This is offset by a decrease due to the disposition of non-core shallow Viking natural gas and Mannville oil assets in the second quarter of 2018.

On June 14, 2018, the Company closed a divesture of its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta with production of approximately 3,500 boe/d. On October 31, 2018, the Company acquired assets in the Alliance Acquisition that complement Karve's existing asset base and are currently producing approximately 900 BOE/d, and include significant infrastructure and future drilling locations in the area. Average Company production is approximately 9,500 boe/d (72% liquids) for the first week of November 2018.

	For the three months ended		For the nine months ended	
	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Sales volumes				
Oil (bbl/d)	4,807	3,283	5,566	2,098
NGLs (bbl/d)	291	226	410	80
Natural gas (mcf/d)	13,359	12,553	20,006	4,821
Total (boe/d)	**7,325**	**5,602**	**9,310**	**2,982**

SALES PRICES AND REVENUE

For the three months ended September 30, 2018, the Company generated revenue of $37.3 million (three months ended September 30, 2017- $18.1 million) on average sales volumes of 7,325 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the three months ended September 30, 2018 was $55.41 compared to $35.18 for the three months ended September 30, 2017. The increase relates to a change in the Company's sales product mix due to the closing of the disposition on June 14, 2018 of non-core gas weighted assets. It is management's intention to increase the liquids weighting to approximately 75% liquids long term through horizontal drilling of Viking light oil wells.

	For the three months ended		For the nine months ended	
KARVE AVERAGE REALIZED PRICE (1)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Revenue ($000s)	37,335	18,133	124,093	34,286
Oil ($/bbl)	74.91	51.45	71.56	54.37
NGLs ($/bbl)	55.39	41.70	54.91	42.68
Natural gas ($/mcf)	1.29	1.49	1.69	1.67
Karve realized price ($/boe)	**55.41**	**35.18**	**48.82**	**42.11**
AVERAGE BENCHMARK PRICES (2)				
Crude oil - WTI ($US/bbl)	69.46	48.18	66.74	49.30
Crude oil - Canadian light sweet ($CDN/bbl)	75.64	57.15	74.52	60.57
Natural gas - AECO-C spot ($CDN/mcf)	1.28	1.61	1.51	2.36
Exchange Rate - ($US/$CAD)	0.77	0.80	0.77	0.77

(1) Excludes hedging gains and losses.

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

As a result of the oil differentials widening toward the end of the third quarter, the Company anticipates a decrease to oil prices in the fourth quarter of 2018. The Company expects our realized oil price to decrease by approximately 40% in the fourth quarter than was realized in the third quarter of 2018. The Company will continue to monitor the oil price differential environment closely and will manage our business to maintain a strong balance sheet.

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

Type	Term	Basis (1)	Volume (Bbl/d)	Swap Price ($CAD/Bbl) (1)	Current Liability ($000s)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	300	70.55	(356)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	200	71.10	(714)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**500**	**70.77**	**(1,070)**

(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	(310)
Put option	Mar. 1/18 - Dec. 31/18	WTI	1,000	70.00	(152)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**2,500**	**66.40**	**(462)**

(1) Nymex WTI monthly average in $CAD.

At September 30, 2018, $467,000 of prepaid put option premiums relating to the put option premium for the unsettled option term are included in prepaids and deposits on the consolidated statement of financial position.

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

	For the three months ended		For the nine months ended	
($000s)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Realized gain (loss) on financial derivative contracts	(1,389)	329	(3,372)	528
Unrealized gain (loss) on financial derivative contracts	1,327	(336)	(1,587)	-
GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	**(62)**	**(7)**	**(4,959)**	**528**

At September 30, 2018, the fair value of the financial derivative contract was a current liability position of $1.5 million resulting in an unrealized loss of $1.6 million for the nine months ended September 30,2018. The fair value, or mark-to-market value, of this contract is based on the estimated amount that would have been received or paid to settle the contract as at September 30, 2018 and may be different from what will eventually be realized. The Company recognized a realized loss of $1.4 million for the three months ended September 30, 2018 (three months ended September 30, 2017 – $329,000 realized gain).

Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $227,000 increase in the unrealized loss and a $5.00 USD decrease in WTI would result in a $230,000 decrease in the unrealized loss.

The unrealized loss on November 6, 2018 (day prior to financial statement release) was **$**784,000.

ROYALTIES

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Royalties	3,214	1,221	8,106	2,149
Royalties as a % of revenue	8.6%	6.7%	6.5%	6.3%
Per boe ($)	4.77	2.37	3.19	2.64

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended September 30, 2018 was $3.2 million ($4.77 per boe) compared to $1.2 million ($2.37 per boe) for the three months ended September 30, 2017. For the three months ended September 30, 2018, the Company's royalty rate was 8.6% of revenues (three months ended September 30, 2017 – 6.7%). The increase in royalty rate relates oil crown royalties. As a number of horizontal Viking wells come off royalty holiday, we expect our royalty rate to increase slowly over time.

OPERATING EXPENSE

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Operating expense	10,442	8,911	40,104	13,750
Per boe ($)	15.50	17.29	15.78	16.89

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 $10.4 million ($15.50 per boe) during the three months ended September 30, 2018 and $8.9 million ($17.29 per boe) for the three months ended September 30, 2017. Operating expenses per boe decreased during the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017 due to new horizontal oil wells brought on production and efficiencies in operating the assets over time.

TRANSPORTATION EXPENSE

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Transportation expense	1,150	827	4,022	1,749
Per boe ($)	1.71	1.60	1.58	2.15

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 $1.2 million ($1.71 per boe) during the three months ended September 30, 2018 and $827,000 ($1.60 per boe) for the three months ended September 30, 2017.

FIELD NETBACK

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

	For the three months ended September 30, 2018		For the three months ended September 30, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	37,335	55.41	18,133	35.18
Royalties	(3,214)	(4.77)	(1,221)	(2.37)
Operating expense	(10,442)	(15.50)	(8,911)	(17.29)
Transportation expense	(1,150)	(1.71)	(827)	(1.60)
FIELD NETBACK ($) (1)	**22,529**	**33.43**	**7,174**	**13.92**

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

	For the nine months ended September 30, 2018		For the nine months ended September 30, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	124,093	48.82	34,286	42.11
Royalties	(8,106)	(3.19)	(2,149)	(2.64)
Operating expense	(40,104)	(15.78)	(13,750)	(16.89)
Transportation expense	(4,022)	(1.58)	(1,749)	(2.15)
FIELD NETBACK ($) (1)	**71,861**	**28.27**	**16,638**	**20.43**

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

OTHER INCOME

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Processing fee income	1,440	510	3,034	510
Royalty income	1,248	226	2,816	226
Other	13	-	522	-
Total other income	2,701	736	6,372	736
Per boe ($)	4.01	1.49	2.51	1.05

Other income for the three months ended September 30, 2018 was $2.7 million ($4.01 per boe) and $736,000 ($1.49 per boe) for the three months ended September 30, 2017. The other income streams relate to processing fee income and royalty income. Processing fee income relates to the Company processing third party oil and gas volumes through Karve owned and operated facilities. The increase in processing fee income is a result of Karve retaining key infrastructure in the disposition that closed on June 14, 2018. Royalty income relates to freehold royalties, gross overriding royalties, royalties paid to the Company on fee title lands, and net profit interests which were acquired in the Provost Acquisition. The increase in royalty income is a result of retaining fee title land in the disposition that closed on June 14, 2018 and increased drilling/production activity in the area.

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

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

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Staff and consulting costs	2,345	1,888	6,641	3,458
Professional fees	31	112	400	278
Office and rent costs	492	245	1,563	766
Other	463	101	1,029	215
General and administration expense (Gross)	3,331	2,346	9,633	4,717
Capitalized G&A and overhead recovery	(1,370)	(542)	(2,547)	(1,062)
General and administration expense (Net)	1,961	1,804	7,086	3,655
Per boe ($)	2.91	3.50	2.79	4.49

General and administrative expenses (net) for the three months ended September 30, 2018 were $2.0 million ($2.91 per boe) and $1.8 million ($3.50 per boe) for the three months ended September 30, 2017. The increase in gross G&A during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 relates to additional head office staff hired as a result of the Provost acquisition. The increase in capitalized G&A and overhead recovery relates to increased capital spending from the three months ended September 30, 2017 to September 30, 2018.

The table below reconciles cash G&A expenditures:

	For the three months ended		For the nine months ended	
	June 30, 2018	June 30, 2017	Sept. 30, 2018	Sept. 30, 2017
General and administration expense (Net)	1,961	1,804	7,086	3,655
Non-cash deferred lease expense	(2)	(53)	(96)	(183)
Cash general and administration expense (Net)	1,959	1,751	6,990	3,472
Per boe ($)	2.91	3.40	2.75	4.26

INTEREST INCOME

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Interest income	51	33	103	119
Per boe ($)	0.08	0.06	0.04	0.15

Interest income relates to interest earned on bank deposits and short-term investments. Interest income increased to $51,000 for the three months ended September 30, 2018 compared to $33,000 for the three months ended September 30, 2017 due to higher cash balances held on deposit. During the three months ended September 30, 2018, no amounts were drawn on the Company's operating demand facility and therefore the Company did not pay interest expense related to this facility.

SHARE-BASED COMPENSATION EXPENSE

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Share-based compensation - options	957	307	3,455	1,416
Share-based compensation - performance warrants	688	466	2,320	3,047
Share based compensation expense	1,645	773	5,775	4,463
Per boe ($)	2.44	1.50	2.27	5.48

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

SBC expense related to stock options for the three months ended September 30, 2018 was $957,000 (three months ended September 30, 2017 - $307,000) and SBC expense related to performance warrants for the three months ended September 30, 2018 was $688,000 (three months ended September 30, 2017 - $466,000) using the graded vesting method.

As at September 30, 2018, 13.1 million stock options and 32.9 million performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.55 per option and $2.89 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 September 30, 2018, 5.8 million stock options and 6.4 million performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the three months ended September 30, 2018, depletion expense increased to $7.4 million (three months ended September 30, 2017 - $6.5 million) due to increases in production, net carrying value, and future development costs from Provost assets acquired, offset by the disposition of non-core assets that closed on June 14, 2018. Depletion expense per boe decreased during the three months ended September 30, 2018, due to an increase in the reserve base from the acquired Provost assets and increased drilling throughout 2018.

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Depletion	7,398	6,494	27,803	11,893
Depreciation and amortization	24	7	46	14
Total DD&A ($)	7,422	6,501	27,849	11,907
Per boe ($)	11.01	12.61	10.96	14.62

INCOME TAX

	For the three months ended		For the nine months ended	
($000s, except per boe amounts)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Current income tax expense	-	-	743	-
Deferred income tax expense (recovery)	4,052	(589)	8,715	(23)
Total income tax expense (recovery) ($)	4,052	(589)	9,458	(23)
Per boe ($)	6.01	(1.14)	3.72	(0.03)

As at September 30, 2018, the deferred tax liability was $6.1 million (as at December 31, 2017 deferred tax asset - $2.6 million) resulting in a deferred tax expense for the nine months ended September 30, 2018 of $8.7 million (nine months ended September 30, 2017 - $23,000 recovery) and current tax expense of $743,000 (nine months ended September 30, 2017 - $nil). With the significant increase in differentials, the Company is in the process of assessing its tax position for the fiscal year 2018.

CAPITAL EXPENDITURES & ACQUISITIONS

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

	For the three months ended		For the nine months ended	
($000s)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Drilling	17,197	8,939	30,973	17,579
Completions	21,013	12,871	36,335	19,237
Facilities and well equipment	12,810	5,627	25,278	10,667
Geological and geophysical	31	-	55	-
Land	144	15	967	296
Acquistions	369	120,518	1,729	120,526
Dispositions	-	-	(30,655)	(451)
Office equipment	198	132	337	141
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS ($000s)	**51,762**	**148,102**	**65,019**	**167,995**

During the three months ended September 30, 2018, the Company drilled 52 gross (49.1 net) wells and completed 49 gross (46.1 net) horizontal Viking oil wells.

The following table outlines total gross and net wells drilled, completed and brought on production:

For the quarter ended	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Drilled - Gross (Net)	52 (49.1)	12 (11.5)	25 (25.0)	23 (22.1)
Completed - Gross (Net)	49 (46.1)	9 (8.9)	25 (24.7)	23 (22.4)
On production - Gross (Net)	44 (41.2)	4 (4.0)	25 (24.7)	23 (22.4)

For the quarter ended	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Drilled - Gross (Net)	25 (24.8)	8 (7.9)	14 (13.9)	10 (9.93)
Completed - Gross (Net)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.93)
On production - Gross (Net)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.93)

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 $120.4 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	116,713
Decommissioning liabilities	(19,042)
FAIR VALUE OF NET ASSETS ACQUIRED	**120,385**

CONSIDERATION	
Cash	120,385
TOTAL PURCHASE PRICE	**120,385**

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

The Company's consolidated statement of net income (loss) and comprehensive income (loss) includes the results of the operations for the period following closing of the Provost Acquisition on August 15, 2017 to December 31, 2017. The Company's net income (loss) and comprehensive income (loss) for the year ended December 31, 2017 includes $26.6 million of revenue and $7.3 million of operating income relating to the acquired assets. If the acquisition had closed on January 1, 2017, pro-forma revenue and operating income are estimated to have been $122.2 million and $53.4 million respectively for the year ended December 31, 2017. Operating income is defined as revenue, net of royalties less operating and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been in effect on the date indicated, or the results that may be obtained in the future.

Other Miscellaneous Acquisitions

The Company acquired various working interests, land, light oil producing properties, royalty interests, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

($000s)	
Property, plant and equipment	1,432
Decommissioning liabilities	(22)
FAIR VALUE OF NET ASSETS ACQUIRED	**1,410**
CONSIDERATION	
Cash	1,410
TOTAL PURCHASE PRICE	**1,410**

DISPOSITION

On June 14, 2018, the Company closed a divesture of its non-core shallow Viking natural gas and Mannville oil assets in the Provost Area of Alberta for cash proceeds of $31.8 million. The disposition was effective March 1, 2018. The disposition includes the majority of the non-core and non-Viking oil assets acquired in the Provost Acquisition. The carrying value of assets and associated decommissioning liabilities disposed during nine months ended September 30, 2018 are summarized below:

($000s)	
Property, plant and equipment (NOTE 11)	40,855
Exploration and evaluation assets (NOTE 12)	228
Decommissioning liabilities (NOTE 14)	(13,284)
Net working capital	2,856
CARRYING VALUE OF NET ASSETS DISPOSED	**30,655**
CASH PROCEEDS, AFTER CLOSING ADJUSTMENTS	**30,655**

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

OTHER LONG-TERM ASSET

On June 14, 2018 the Company acquired a 40% shareholding in a privately held oil and gas company ("PrivateCo") for $3.0 million in conjunction with the non-core asset disposition. As the Company has significant influence over PrivateCo's operations, it accounts for the investment using the equity method.

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

The net loss of PrivateCo for the nine months ended September 30, 2018 was $7.9 million, primarily due to unrealized hedging losses of PrivateCo on derivative instruments. The equity investment is subject to significant volatility due to changes in commodity prices. The Company's 40% equity share of net loss is $3.0 million for the nine months ended September 30, 2018.

DECOMMISSIONING LIABILITY

At September 30, 2018, the Company estimated a decommissioning liability of $8.0 million for the future abandonment and reclamation of Karve's properties (September 30, 2017 – $23.3 million). $1.1 million is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $6.9 million of estimated decommissioning liability is presented as a long-term liability.

The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $127.1 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2037 and 2057. The estimated future cash flows have been discounted using a credit adjusted rate of 8 % and an inflation rate of 2 %. At September 30, 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 $4.3 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 September 30, 2018, nil was drawn on the facility. The facility bears interest at rates ranging from prime plus 1.00 % to 2.50 %, depending on the net debt to cash-flow ratio in the previous quarter, and is subject to an annual standby fee on the undrawn portion of between 0.20 % to 0.50 %. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts. As at September 30, 2018, the Company is in compliance with all covenants.

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	696,666	709
Allocation of contributed surplus - exercise of options and performance warrants	-	380
Share issue costs, net of deferred tax ($568,000)	-	(1,534)
BALANCE AT DECEMBER 31, 2017	**137,199,270**	**216,061**
Issued on exercise of options and performance warrants	70,000	113
Allocation of contributed surplus - exercise of options and performance warrants	-	34
BALANCE AT SEPTEMBER 30, 2018	**137,269,270**	**216,208**

There were 70,000 shares issued during the nine months ended September 30, 2018 (nine months ended September 30, 2017 - 71,750,000).

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended ($000s)	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Petroleum and natural gas sales	37,335	44,283	42,475	38,464
Funds flow from operations (1)	20,690	19,698	22,368	19,022
AVERAGE SALES VOLUMES				
Oil (bbl/d)	4,807	5,697	6,210	5,700
Natural gas liquids (bbl/d)	291	523	419	412
Natural gas (Mcf/d)	13,359	24,032	22,729	23,792
TOTAL PRODUCTION (BOE/d)	**7,325**	**10,225**	**10,417**	**10,078**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	69.46	67.88	62.91	55.27
Crude oil - Canadian light sweet ($CDN/bbl)	75.64	77.82	70.09	65.68
Natural gas - AECO-C spot ($CDN/mcf)	1.28	1.20	2.06	1.72
Exchange Rate - ($US/$CAD)	0.77	0.77	0.79	0.79
FIELD NETBACK ($/BOE)				
Revenue	55.41	47.59	45.31	41.49
Royalties	(4.77)	(2.86)	(2.38)	(2.31)
Operating expense	(15.50)	(15.87)	(15.89)	(14.64)
Transportation expense	(1.71)	(1.87)	(1.21)	(1.30)
FIELD NETBACK ($/BOE) (1)	**33.43**	**26.99**	**25.83**	**23.24**
General and administration	(2.91)	(3.71)	(1.68)	(3.77)
Other income	4.01	2.24	1.69	1.97
Interest income	0.08	0.04	0.01	0.03
Realized hedging	(2.06)	(1.32)	(0.80)	-
CASHFLOW NETBACK ($/BOE)	**32.55**	**24.24**	**25.05**	**21.47**

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

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

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

During the quarter ended September 30, 2018, the Company's daily production decreased from the quarter ended June 30, 2018 due to the close of the non-core asset disposition on June 14, 2018. The decrease in production is offset by the production from bringing on 44 gross (41.2 net) wells on throughout the third quarter of 2018.

NET INCOME SUMMARY

	For the three months ended September 30, 2018		For the three months ended September 30, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	37,335	55.41	18,133	35.18
Royalties	(3,214)	(4.77)	(1,221)	(2.37)
NET REVENUE	**34,121**	**50.64**	**16,912**	**32.82**
Other income	2,701	4.01	736	1.43
Loss on financial derivative contracts	(62)	(0.09)	(7)	(0.01)
Loss on investment (NOTE 8)	(1,646)	(2.44)	-	-
Interest income	51	0.08	33	0.06
TOTAL REVENUE AND OTHER INCOME	**35,165**	**52.20**	**17,674**	**34.29**
Operating	10,442	15.50	8,911	17.29
Transportation	1,150	1.71	827	1.60
General and administration	1,961	2.91	1,804	3.50
Depletion, depreciation and amortization	7,422	11.01	6,501	12.61
Accretion	148	0.22	265	0.51
Share-based compensation	1,645	2.44	773	1.50
Exploration and evaluation - expiries	222	0.33	-	-
Transaction costs	20	0.03	1,814	3.52
INCOME (LOSS) FROM OPERATIONS BEFORE TAXES	**12,155**	**18.05**	**(3,221)**	**(6.25)**
Current income tax expense	-	-	-	-
Deferred income tax expense (recovery)	4,052	6.01	(589)	(1.14)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**8,103**	**12.04**	**(2,632)**	**(5.11)**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

($000s)	2018	2019	2020	2021	Therafter	Total
Operating leases	137	543	597	164	-	1,441
Pipeline transportation	282	1,858	1,453	1,393	2,548	7,534
Total annual commitments	**419**	**2,401**	**2,050**	**1,557**	**2,548**	**8,975**

Deferred lease liability of $436,000 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 in the second quarter of 2019.

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at September 30, 2018, there were 137,269,270 common shares outstanding (September 30, 2017 - 137,049,270).

As at November 7, 2018, the date of this MD&A, there were 137,269,270 common shares, 13,077,260 stock options and 32,935,500 performance warrants outstanding.

LIQUIDITY

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

SUBSEQUENT EVENTS

Acquisition of Oil and Gas Assets

On October 31, 2018, the Company closed an acquisition to acquire Viking oil and gas assets in the Alliance area of Alberta (the "Alliance Acquisition") for total consideration of $12.1 million, subject to customary closing adjustments. The effective date of the acquisition is May 1, 2018. The assets acquired in the Alliance Acquisition complement Karve's existing assets and are currently producing approximately 900 BOE/d, and include significant infrastructure and future Viking oil horizontal drilling locations in the area.

Stock Option Grant

Subsequent to September 30, 2018, 890,000 stock options were granted to certain employees of the Company at an exercise price of $2.25 per share under the Company's Stock Option Plan.

OFF BALANCE SHEET ARRANGEMENTS

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

All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at September 30, 2018.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

BARRELS OF OIL EQUIVALENT

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

NON-GAAP MEASUREMENTS

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

	For the three months ended		For the nine months ended	
($000s)	Sept. 30, 2018	Sept. 30, 2017	Sept. 30, 2018	Sept. 30, 2017
Cash flow from continuing operations	24,566	(519)	65,744	4,737
Change in non-cash working capital from operating activities	(3,876)	5,173	(2,988)	7,725
FUNDS FLOW FROM OPERATIONS	**20,690**	**4,654**	**62,756**	**12,462**
Transaction costs	20	1,814	356	2,016
Decommissioning expenditures	1,223	53	4,119	71
ADJUSTED FUNDS FLOW FROM OPERATIONS	**21,933**	**6,521**	**67,231**	**14,549**

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.
[R] Denotes member of the Reserves Committee.
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