MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2016

AND DECEMBER 31, 2015

March 29, 2017

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our November 23, 2016 letter to shareholders.

As you will recall, post closing of our initial acquisition in June 2016, Karve started with approximately 450 BOE/d of production. Since then we have been steadily developing the asset base with horizontal drilling. In the fourth quarter of 2016 we drilled and completed a total of 10 horizontal wells and since the end of Q4 2016 we have drilled another 14 horizontal wells. We now have 9 horizontal wells from our Q1 2017 drilling program on production giving us a total of 19 horizontal wells on production since Karve started drilling. As a result of our drilling activities we are currently producing over 1,600 BOE/d. As windows open up during breakup we plan to complete the additional 5 wells that are drilled but not yet completed.

In addition to our drilling success, we are pleased to report that operating expenses have continued a downward trend and are currently below $20.00 per BOE. As production increases, we expect further decreases in operating expense due to the fixed nature of operating an asset with a large land position.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2016. With only limited production data from the initial 10 horizontal wells that were drilled in Q4 2016, proved plus probable reserve volumes have increased from 1.4 to 2.4 MMBOE and the BT NPV 10 reserves value has increased from $20.2 to $43.9 million. In the attached management's discussion and analysis (MD&A) we have included a summary of the Karve Sproule Report. We anticipate further increases in reserves with recently drilled wells on production in addition to well performance related increases in our upcoming mid year report.

At December 31, 2016, we were in a positive working capital position of approximately $23.3 million and as of March 29, 2017, have positive working capital position of approximately $15.0 million after accounting for expenses and capital expenditures from our Q1 2017 drilling program. With the positive working capital, we intend to complete our 2017 drilling program as well as continue to assess and evaluate additional interests in the area while also investigating other acquisitions that would add to our future growth prospects. In addition to our cash balance, we now have a credit revolving operating demand facility with a Canadian chartered bank in the amount of $1.0 million. The facility was put in place to enable Karve to enter into hedging contracts. Accordingly, we entered into a 300 bbl/d hedge from April 1, 2017 to September 30, 2017 at an average price of Cdn $72.25 WTI per barrel.

You will find enclosed the Karve Energy Inc. audited consolidated financial statements and MD&A for the year ended December 31, 2016 and December 31, 2015. 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 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 year ended December 31, 2016. It is dated March 29, 2017 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and the audited financial statements for the year ended December 31, 2015. Both financial 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. All references to "Karve" or the "Company" refer to Karve Energy Inc.

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.".

On June 15, 2016, a new management team (the "Karve management team") replaced the previous management team (the "previous Bruin management team"). The Karve management team organized (i) a recapitalization of the Company through a series of private placements; (ii) the appointment of a new Board of Directors; and (iii) the acquisition of an oil-weighted asset base in the Alberta Viking formation.

OPERATIONAL AND FINANCIAL SUMMARY

The Company had producing oil and gas properties which were located in the Fiske area of Saskatchewan for the 15 day period from January 1, 2016 to January 15, 2016, when the Fiske producing property disposition closed (the "Fiske Producing Property Disposition"). Subsequent to the Fiske Producing Property Disposition, there was no oil and gas production until June 15, 2016 when the Company closed an acquisition of oil and gas properties located in the Alberta Viking formation (the "Viking Acquisition"). Sales volumes and operating results for the year ended December 31, 2016 include the 15 day production period from January 1, 2016 to January 15, 2016 and the 199 day production period from June 15, 2016 to December 31, 2016. Comparative amounts for the year ended December 31, 2015 include the results of the Fiske producing property.

	For the year ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Dec. 31, 2016	Dec. 31, 2015
Net loss from continuing operations	(4,971)	(4,532)
Per basic and diluted shares	(0.11)	(0.17)
Net income (loss) from discontinued operations	18	(4,039)
Per basic and diluted shares	-	(0.16)
Funds flow used for operations (1)	(2,896)	(1,309)
Per basic and diluted shares (1)	(0.06)	(0.05)
Cash flow from (used for) continuing operations	3,971	(1,298)
Per basic and diluted shares	0.09	(0.05)
Capital expenditures (excluding acquisitions) (2)	11,418	875
Acquisitions	23,735	-
Dispositions	(2,486)	-
Total net capital expenditures (including acquisitions)	32,667	875
Net available working capital (1)	23,269	18,997
Total assets	78,517	22,142
Shares outstanding, weighted average (000s)	46,090	25,789
Shares outstanding, end of period (000s)	64,753	25,789

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

(2) For the year ended December 31, 2015, capital expenditures relate to discontinued operations.

OPERATIONAL	For the year ended Dec. 31, 2016	Dec. 31, 2015
Sales volumes		
Oil (bbl/d)	217	83
NGLs (bbl/d)	3	-
Natural gas (mcf/d)	415	-
Total (boe/d)	**289**	**83**

($000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Average sales prices		
Oil ($/bbl)	52.95	53.53
NGLs ($/bbl)	55.11	-
Natural gas ($/mcf)	2.69	-
Boe basis ($/boe)	**44.17**	**53.53**
Field netback ($/boe)		
Sales price	44.17	53.53
Royalties	(2.61)	(4.18)
Operating expense	(33.43)	(21.17)
Transportation expense	(2.04)	-
Field netback (1)	**6.09**	**28.18**

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

RESERVES SUMMARY

The following is a summary of reserves for the Company's total reserves which are located in the Consort and Hamilton Lake areas as at December 31, 2016 as evaluated by Karve's independent reserve engineers, Sproule Associated Limited ("Sproule"). The reserves have been reviewed and approved by Karve's Reserve Committee. No provision for general and administration expenses has been made in the reserve evaluation and it should not be assumed that the net present value estimates made by Sproule represent fair market value of the assets. The Company had no producing oil and gas assets in the comparative period ended December 31, 2015 and therefore has no reserves for the comparative period.

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Consort and Hamilton Lake areas of Alberta.

GROSS RESERVES SUMMARY(1,2)					For the year ended Dec. 31, 2016
Karve interest		Oil	NGLs	Natural Gas	6:1
	% Liquids	Mbbl	Mbbl	MMcf	MBOE
Proved developed producing	92%	1,155	4	570	1,255
Proved non-prod. and undeveloped	92%	313	1	158	340
TOTAL PROVED	**92%**	**1,468**	**5**	**728**	**1,595**
Probable	93%	773	3	369	837
TOTAL PROVED PLUS PROBABLE	**92%**	**2,241**	**8**	**1,097**	**2,432**

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2016.

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

Net present values are based on Sproule December 31, 2016 forecast pricing assumptions.

NET PRESENT VALUE, BEFORE TAX(1,2)				For the year ended Dec. 31, 2016
Karve interest ($000s)	Undiscounted	5%	10%	15%
Proved developed producing	34,013	29,299	25,704	22,957
Proved non-prod. and undeveloped	5,268	4,428	3,623	2,920
TOTAL PROVED	**39,281**	**33,727**	**29,327**	**25,877**
Probable	25,682	18,662	14,596	11,929
TOTAL PROVED PLUS PROBABLE	**64,963**	**52,389**	**43,923**	**37,806**

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2016.

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

RESERVE LIFE INDEX	For the year ended Dec. 31, 2016[1]	Dec. 31, 2016[2]
Total proved	4.4	2.7
Total proved plus probable	6.7	4.2

(1) Based on production of approximately 1,000 BOE/d as of December 2016

(2) Based on production of approximately 1,600 BOE/d as of March 2017

The future development capital as at December 31, 2016 is as follows:

FUTURE DEVELOPMENT CAPITAL ($000s)	As at Dec. 31, 2016
Total proved plus probable	12,273

FINDING, DEVELOPMENT & ACQUISTION COSTS ($000s, except per boe amounts)	For the year ended Dec. 31, 2016
Capital expenditures (excluding acquisitions)	11,377
Change in future development costs (FDC) [1]	12,273
TOTAL	**23,650**
Acquistions	23,735
TOTAL CAPITAL EXPENDITURES INCLUDING FDC	**47,385**

(1) FDC as at December 31, 2016 was $12.3 million.

RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)	For the year ended Dec. 31, 2016
Reserve additions	1,204
Acquistion reserve additions	1,413
2016 Production	(185)
RESERVE ADDITIONS INCLUDING ACQUISTIONS	**2,432**

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

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

(2) Recycle ratio is based on January 2017 operating netback of $27.63/boe.

RESERVES RECONCILATION (MBOE)	Total Proved	Total Proved plus Probable
December 31, 2015	-	-
Infill drilling and extensions	577	1,069
Acquisitions	1,080	1,413
Technical revisions	123	135
Production	(185)	(185)
DECEMBER 31, 2016	**1,595**	**2,432**

ACQUISITION OF OIL AND GAS ASSETS

Viking Acquisition

On June 15, 2016, the Company closed an acquisition of oil and gas assets located in the Alberta Viking formation (the “Viking Acquisition”) for a total purchase price of $22.7 million, subject to customary closing adjustments. The assets acquired consisted of producing properties, reserves, facilities, and undeveloped land. The effective date of the acquisition was April 1, 2016.

As a result of the Viking Acquisition, the Company was also required to pay deposits associated with the Alberta Energy Regulators (“AER”) licensee liability rating program. The initial deposit of $13.7 million was made on July 25, 2016 and was reduced by $4.7 million to $9.0 million on September 13, 2016. The deposits are refundable once the Company’s operated licences deemed assets are greater than their deemed liabilities based on parameters determined by the AER. As at December 31, 2016 a deposit of $9.0 million is outstanding relating to the AER licensee liability rating program which the Company expects to have returned in 2017.

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

($000s)	
Exploration and evaluation assets	7,889
Property, plant and equipment	20,692
Decommissioning liabilities	(5,872)
FAIR VALUE OF NET ASSETS ACQUIRED (1)	**22,709**
CONSIDERATION	
Cash	22,709
TOTAL PURCHASE PRICE	**22,709**

(1) The Company recorded the final statement of adjustments and reviewed the fair values of identifiable assets and liabilities acquired. Revisions to estimates over the measurement period resulted in a net decrease to exploration and evaluation assets and decommissioning liabilities of $0.7 million, compared to the amounts initially estimated and previously reported in Karve's MD&A as at September 30, 2016.

During the year ended December 31, 2016, the Company incurred $106,000 of transaction costs related to the Viking Acquisition which were recorded as "transaction costs" in the Company's consolidated statement of net loss and comprehensive loss.

The Company's consolidated statement of net loss and comprehensive loss includes the results of the operations for the period following closing of the Viking Acquisition on June 15, 2016. The Company's net loss and comprehensive loss for the year ended December 31, 2016 includes $4.0 million of revenue and $300,000 of operating income relating to the acquired assets. If the acquisition had closed on January 1, 2016, pro-forma revenue and operating income are estimated to be $7.3 million and $1.0 respectively for the year ended December 31, 2016. 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, 2016, the Company acquired various working interests, land, light oil producing properties, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

($000s)	
Exploration and evaluation assets	391
Property, plant and equipment	847
Decommissioning liabilities	(212)
FAIR VALUE OF NET ASSETS ACQUIRED	**1,026**
CONSIDERATION	
Cash	876
Shares	150
TOTAL PURCHASE PRICE	**1,026**

Consideration paid consists of $876,000 cash and 150,000 common shares at a prescribed value of $1.00 per common share.

PROPERTY DISPOSITION AND DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske cash generating unit ("CGU") for proceeds of $2.5 million after closing adjustments. These assets were classified as held for sale on the December 31, 2015 consolidated statement of financial position.

The carrying value of assets and associated decommissioning liabilities disposed during the year ended December 31, 2016 are summarized below.

($000s)	
Property, plant and equipment	2,679
Decommissioning liabilities	(193)
CARRYING VALUE OF NET ASSETS DISPOSED	**2,486**
Cash proceeds, after closing adjustments	2,486
GAIN (LOSS) ON SALE OF ASSETS	**-**

As a result of the property disposition, during the year ended December 31, 2016, the Company only had oil and gas production operations in the Fiske CGU for the 15 day period January 1, 2016 to January 15, 2016. The consolidated statement of net loss and comprehensive loss has been presented to show the discontinued operation separately from continuing operations.

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

($000s)	As at Dec. 31, 2016	As at Dec. 31, 2015
Trade and other receivables	-	132
Property, plant and equipment	-	2,679
ASSETS HELD FOR SALE	**-**	**2,811**

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 Dec. 31, 2016	As at Dec. 31, 2015
Trade and other payables	-	135
Decommissioning liabilities	-	193
LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	**-**	**328**

For the year ended December 31, 2015, decommissioning liabilities included in liabilities associated with assets held for sale related to the Company's net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The key assumptions, on which the carrying amount of the decommissioning liability is based, include a credit adjusted risk-free rate of approximately 8% and an inflation rate of 1.5%. The undiscounted amount of the estimated cash flows required to settle the obligations is $668,000 which will be incurred over the next 20 years. All decommissioning liabilities are associated with assets held for sale at December 31, 2015.

Subsequent to December 31, 2016, the remaining undeveloped land in the Fiske CGU was disposed of for $451,000. As a result of this disposal the Company no longer has Saskatchewan operations.

SALES VOLUMES

Sales volumes averaged 289 boe/d during the year ended December 31, 2016 compared to 83 boe/d for the year ended December 31, 2015. The increase in sales volumes is due to the year ended December 31, 2016 including production from the Viking acquisition which closed on June 15, 2016 whereas the comparative period includes the results from the Fiske producing property which was disposed of January 15, 2016. Average production from the Viking property for the period post closing of the Viking acquisition on June 15, 2016 was 528 boe/d. The increase in production from the Viking property since acquisition date (459 boe/d at acquisition) is due to bringing 10 wells on production in late Q4 2016, consolidation of non-operated working interest partners in the property, and field optimization activities. Refer to page 14 for supplementary quarterly information.

All current production is from the Viking property acquired on June 15, 2016, which is currently producing approximately 1,600 boe/d for the week previous to the date of this MD&A.

	For the year ended	
AVERAGE SALES VOLUMES	Dec. 31, 2016	Dec. 31, 2015
Oil (bbl/d)	217	83
Natural gas liquids (bbl/d)	3	-
Natural gas (mcf/d)	415	-
TOTAL SALES VOLUMES (boe/d)	**289**	**83**

SALES PRICES AND REVENUE

For the year ended December 31, 2016, the Company generated revenue of $4.7 million (December 31, 2015 - $1.6 million) on average sales volumes of 289 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the year ended December 31, 2016 was $44.17 compared to $53.53 for the year ended December 31, 2015. The decrease for the year relates to the legacy production mix in the Viking property compared to the Fiske producing property in the comparative period. Natural gas produced from the Viking property is typically conserved whereas gas produced in the Fiske producing property was flared in the comparative period. The Company sells its oil production at current market prices discounted for Alberta delivery points and adjusted for quality based on the density of the Company's sweet, light crude oil which averages 32° API. Refer to page 14 for supplementary quarterly information.

KARVE AVERAGE REALIZED PRICE	For the year ended Dec. 31, 2016	Dec. 31, 2015
Revenue ($000s) (1)	4,678	1,616
Oil ($/bbl)	52.95	53.53
NGLs ($/bbl)	55.11	-
Natural gas ($/mcf)	2.69	-
Karve realized price ($/boe)	**44.17**	**53.53**
AVERAGE BENCHMARK PRICES		
Crude oil - WTI ($US/bbl)	43.32	48.80
Crude oil - Canadian light sweet ($CDN/bbl)	52.79	57.45
Natural gas - AECO-C spot ($CDN/mcf)	2.18	2.70
Exchange Rate - ($US/$CAD)	0.76	0.78

(1) Revenue includes amounts presented as income (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.

REVENUE ($000s)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Crude oil	4,207	1,616
Natural gas liquids	63	-
Natural gas	408	-
TOTAL PETROLEUM AND NATURAL GAS SALES	**4,678**	**1,616**

(1) Sales of $31,000 for the year ended December 31, 2016 are included in gain (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.
(2) All sales for the year ended December 31, 2015 are included in gain (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.

Subsequent to December 31, 2016, the Company entered into a sell side crude oil commodity contract with a Canadian chartered bank. The effective date of the contract is April 1, 2017. The contract is for 300 barrels per day of oil at a fixed price of $72.25 CAD per barrel. This contract terminates September 30, 2017.

ROYALTIES

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2016 was $276,000 ($2.61 per boe) compared to $126,000 ($4.18 per boe) for the year ended December 31, 2015. For the year ended December 31, 2016, the Company's royalty rate was 5.9% of revenues (year ended December 31, 2015 – 7.8%), a decrease of 24% due to different royalty rates between the Alberta based assets at Consort and Hamilton Lake and the Saskatchewan based assets at the Fiske producing property which had higher gross overriding royalty rates. Royalty rates are expected to remain low due to the high percentage of Crown lands and the Alberta Energy royalty incentive program. Refer to page 14 for supplementary quarterly information.

($000s, except per boe amounts)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Royalty expense (1)	276	126
Royalty expense as a % of revenue	5.9%	7.8%
Per boe ($)	2.61	4.18

(1) Royalty expense includes amounts presented as income (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.

OPERATING EXPENSE

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 $3.5 million ($33.43 per boe) during the year ended December 31, 2016 and $639,000 ($21.17 per boe) for the year ended December 31, 2015. Operating expenses per boe increased during the year ended December 31, 2016 due to the Viking Acquisition which closed on June 15, 2016. Post closing of the acquisition, through a number of field activities Karve has been transitioning the high operating cost assets to a lower operating cost and has incurred a number of one-time costs as a result. This includes items such as one-time road and lease maintenance, pipeline cleaning, and facility repairs. As new horizontal wells come on production, the operating expense per boe is expected to continue to decrease due to the fixed nature of a considerable portion of the expenses being allocated over increasing production volumes. Refer to page 14 for supplementary quarterly information.

($000s, except per boe amounts)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Operating expense (1)	3,540	639
Per boe ($)	33.43	21.17

(1) Operating expense includes amounts presented as income (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.

TRANSPORTATION EXPENSE

Transportation expense includes costs paid to third parties for transporting oil, sales gas, and associated liquids to the pipeline or processing plant point of sale. Transportation expenses were $216,000 ($2.04 per boe) during the year ended December 31, 2016 and $nil for the year ended December 31, 2015. The increase in transportation expense in the current period is due to oil trucking and firm service gas transportation costs incurred to transport production to sales points, whereas in the comparative period oil emulsion was sold at the battery. The comparative period costs are presented as "operating expenses". Refer to page 14 for supplementary quarterly information.

($000s, except per boe amounts)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Transportation expense	216	-
Per boe ($)	2.04	-

FIELD NETBACK

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

	For the year ended December 31, 2016		For the year ended December 31, 2015	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	4,678	44.17	1,616	53.53
Royalties	(276)	(2.61)	(126)	(4.18)
Operating expense	(3,540)	(33.43)	(639)	(21.17)
Transportation expense	(216)	(2.04)	-	-
FIELD NETBACK ($) (1)	**646**	**6.09**	**851**	**28.18**

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

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the years ended December 31, 2016 and December 31, 2015:

($000s, except per boe amounts)	For the year ended Dec. 31, 2016	Dec. 31, 2015
Staff and consulting costs	2,350	862
Professional fees	1,164	393
Office and rent costs	518	240
Other	157	102
General and administration expense (Gross)	4,189	1,597
Capitalized G&A and overhead recovery	(377)	(92)
General and administration expense (Net)	3,812	1,505
Per boe ($)	36.00	49.86

General and administrative expenses (net) for the year ended December 31, 2016 were $3.8 million ($36.00 per boe) and $1.5 million ($49.86 per boe) for the year ended December 31, 2015. The decrease in G&A per boe relates to increased sales volumes in the current period.

During the year ended December 31, 2016, the Company incurred one time restructuring costs on the transition of the Company to the Karve management team, and termination benefits of $1.1 million were paid on the termination of all employees of the previous Bruin management team without cause.

FINANCIAL INCOME

Financial income relates to interest income earned on bank deposits and short term investments. Interest income increased to $256,000 for the year ended December 31, 2016 compared to $196,000 due to larger cash balances held on deposit and higher interest rates earned during the year ended December 31, 2016 compared to December 31, 2015. At December 31, 2016, the Company had no bank debt.

Subsequent to year end, the Company entered into a $1.0 million revolving operating demand facility with a Canadian chartered bank.

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2016	Dec. 31, 2015
Financial income	256	196
Per boe ($)	2.42	6.48

SHARE-BASED COMPENSATION EXPENSE ("SBC")

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2016	Dec. 31, 2015
Share-based compensation - options	1,297	1,626
Share-based compensation - cancelled options	849	-
Share-based compensation - performance warrants	1,317	332
Share-based compensation - cancelled performance warrants	174	-
Share-based compensation - founder shares	635	-
Capitalized share-based compensation	-	(391)
Share based compensation expense	4,272	1,567
Per boe ($)	40.34	51.93

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

All issued and outstanding stock options and performance warrants to the previous Bruin management team were cancelled on June 15, 2016, and a new stock option and performance warrant plan has been put in place for the Karve management team.

During the year ended December 31, 2016, 6,365,000 stock options and 16,125,000 performance warrants were approved for issuance by the Board of Directors (year ended December 31, 2015 – 150,000).

SBC expense for the year ended December 31, 2016, was $4.3 million (year ended December 31, 2015 - $1.6 million) using the graded vesting method.

As at December 31, 2016, 6,365,000 stock options and 16,125,000 performance warrants were outstanding. The weighted average exercise price and fair value of the stock options outstanding was $0.91 per option and $0.57 per option respectively. The weighted average exercise price and fair value of the performance warrants outstanding was $1.90 and $0.40 respectively. There were no stock options or performance warrants exercised during the year ended December 31, 2016 and no stock options or performance warrants were exercisable at December 31, 2016.

Subsequent to December 31, 2016, 110,000 stock options were approved for issuance by the Board of Directors.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the year ended December 31, 2016 depletion expense was $1.8 million (December 31, 2015, $1.1 million) due to increased production from the Consort and Hamilton Lake assets during the year ended December 31, 2016 compared to the production volumes from the Fiske producing property during the comparative period.

All production assets in the Fiske area of Saskatchewan were classified as "assets held for sale" until January 15, 2016 when the disposition closed. Assets held for sale are not subject to depletion, therefore no depletion expense was recognized related to the Fiske producing property during the year ended December 31, 2016.

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2016	Dec. 31, 2015
Depletion [1]	1,787	1,121
Depreciation and amortization	8	4
Total DD&A ($)	1,795	1,125
Per boe ($)	16.95	37.28

(1) Depletion expense includes amounts presented as income (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.

IMPAIRMENT (RECOVERY) OF PROPERTY, PLANT AND EQUIPMENT & EXPLORATION AND EVALUATION ASSETS

During the previous year ended December 31, 2015, the Company signed an agreement to dispose of all its producing oil and natural gas properties which were located in the Fiske CGU. The Company recorded an impairment charge on the assets held for sale of $3.5 million on the re-measurement of the property to the lower of its carrying amount and its fair value less costs of disposal which has been included within income (loss) from discontinued operations in the consolidated statement of net loss and comprehensive loss.

During the previous year ended December 31, 2015, the Company impaired $1.7 million of undeveloped land, seismic, and geological and geophysical assets as the Company did not have intentions to develop the undeveloped lands to which these assets relate. During the year ended December 31, 2016 impairment expense of $247,000 was reversed based on management's estimate of the Fiske, Saskatchewan land value which was disposed of subsequent to year end.

INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined basic federal and provincial statutory income tax rates for Canada at December 31, 2016 at 27% (December 31, 2015 – 26.5%). A reconciliation to the differences is as follows:

	For the year ended	
($000s)	Dec. 31, 2016	Dec. 31, 2015
Net loss before taxes	(9,140)	(8,571)
Combined federal and provincial tax rate	27.0%	26.5%
Computed "expected" tax recovery	(2,468)	(2,271)
Increase (decrease) in taxes due to:		
Permanent differences	1,158	421
Amortization of share issue costs	-	(92)
Recognition of unrecognized deferred tax asset	(4,432)	-
True-up of tax pools	1,555	-
Change in tax rate	-	(85)
Amount for which no deferred tax asset was recognized	-	2,027
TOTAL INCOME TAX	**(4,187)**	-
Current income tax	**-**	-
Deferred income tax recovery	**(4,187)**	
TOTAL INCOME TAX	**(4,187)**	-

In the prior period, the Company had not recorded deferred income tax assets in relation to its' non-capital losses, tax pools, and share issue costs due to the uncertainty related to the realization of such assets. During the year ended December 31, 2016, the Company recognized deferred income tax assets on these non-capital losses, tax pools, and share issue costs as it is probable that the tax benefit can be utilized in the future to offset income subject to tax. The following table summarizes Karve's net deferred income tax asset at December 31, 2016:

	Balance at Jan. 1, 2016	Recognized in Loss	Recognized in Statement of Financial Position	Balance at Dec. 31, 2016
Non-capital losses	2,320	2,313	-	4,633
Share issue costs	280	-	41	321
Property, plant and equipment and exploration and evaluation assets	1,830	(2,150)	-	(320)
		-	-	-
Unrecognized deferred tax-assets	(4,430)	4,024	406	-
TOTAL DEFERRED INCOME TAX ASSET	**-**	**4,187**	**447**	**4,634**

The following table summarizes Karve's net deferred income tax asset at December 31, 2015:

	Balance at Jan. 1, 2015	Recognized in Loss	Recognized in Statement of Financial Position	Balance at Dec. 31, 2015
Non-capital losses	916	1,404	-	2,320
Share issue costs	360	-	(80)	280
Property, plant and equipment and exploration and evaluation assets	30	1,800	-	1,830
				-
Unrecognized deferred tax-assets	(1,306)	(3,204)	80	(4,430)
TOTAL DEFERRED INCOME TAX ASSET	-	-	-	-

As at December 31, 2016, the Company had the following income tax pools available for deduction:

($000s)	As at Dec. 31, 2016
Non-capital losses	17,163
Property, plant and equipment and exploration and evaluation assets	32,412
Share issue costs	1,188
TOTAL TAX POOLS	**50,763**

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the years ended December 31, 2016 and December 31, 2015 consisted of the following:

	For the year ended	
($000s)	Dec. 31, 2016	Dec. 31, 2015
Acquisitions	23,735	-
Dispositions	(2,486)	-
Drilling	3,511	422
Completions	5,496	290
Facilities and well equipment	2,221	74
Geological and geophysical	-	28
Land acquisitions	149	56
Office equipment	41	5
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS ($000s)	**32,667**	**875**

During the year ended December 31, 2016, the Company closed the Viking acquisition for $22.7 million and ten minor acquisitions of non-operated working interest partners interest in the Viking property for total consideration of $1.0 million (including 150,000 common shares of Karve at a prescribed value of $1.00 per common share).

Drilling and completion operations during the year ended December 31, 2016 relate to drilling 10 (9.9 net) wells during Q4 2016.

DECOMMISSIONING LIABILITY

At December 31, 2016, the Company recorded a decommissioning liability of $7.2 million for the future abandonment and reclamation of Karve's properties (December 31, 2015 – $193,000). 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 that its total undiscounted amount of cash flow required to settle its decommissioning liability is approximately $54.6 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2036 and 2056. The estimated future cash flows have been discounted using a credit adjusted rate of approximately 8% and an inflation rate of 2%. At December 31, 2016, a 1% decrease in the discount rate used would create approximately a $1.9 million increase in the decommissioning liability, and a 1% increase in the discount rate used would create approximately a $1.4 million decrease in the decommissioning liability. During the year ended December 31, 2016, the Company abandoned one well for $60,000.

SHARE CAPITAL

Common Shares

The Company was re-capitalized by the Karve management team during June 2016.

On June 14, 2016, the remaining put-call option was exercised for $7.0 million ($6.6 million net of share issuance costs) resulting in the issuance of 4,375,000 common shares and the cancellation of 4,375,000 special voting preferred shares. In connection with the put-call option exercise, the Company incurred $385,000 of share issuance costs ($281,000 net of deferred tax).

In June 2016, the Company completed a series of private placement financings, issuing 28,058,824 common shares for gross proceeds of $27.0 million less $216,000 in share issuance costs ($158,000 net of deferred tax). The financings were comprised of:

(i) 7,058,824 common shares issued to certain members of the Karve management team at $0.85 per share for gross proceeds of $6.0 million.

(ii) 21,000,000 common shares issued to other investors at $1.00 per share for gross proceeds of $21.0 million.

In July and August 2016, the Company completed a series of private placement financings, issuing 6,239,500 common shares at a price of $1.00 per share for gross proceeds of $6.2 million less $19,000 in share issuance costs ($14,000 net of deferred tax).

In August 2016, the Company issued 43,000 common shares at $1.00 per common share to a related party (NOTE 21).

In August 2016, the Company issued a total of 247,000 common shares at a price of $1.00 per share as purchase consideration for asset acquisitions and consulting services provided.

Concurrent to the equity issuances (not including the put-call option or equity issued as consideration for asset acquisitions and consulting services) that closed during the year ended December 31, 2016, 34,298,324 share purchase warrants were issued. Each share purchase warrant entitles the holder to purchase one common share of the Company for a nominal amount in the event of a loss incurred by the Company in excess of $450,000 which relates to a condition that existed prior to the June 15, 2016 recapitalization date. The share purchase warrants expire on June 15, 2017.

In the prior period, the Company had not recorded deferred income tax assets in relation to its' share issue costs due to the uncertainty related to the realization of such assets. During the year ended December 31, 2016, the Company recognized deferred income tax assets on total share issuance costs of $1.7 million as it is probable that the tax benefit can be utilized in the future to offset income subject to tax.

Preferred Shares and Put-Call Options

In December 2014, the Company issued 4,375,000 series 1 special voting preferred shares and 4,375,000 put–call options on the Company's common shares, for a nominal fee. The preferred shareholders are not eligible to participate in dividends of the Company. Each preferred share issued and outstanding entitles the holder to one vote at meetings of the shareholders of the Company.

Each put–call option may be exercised by either the Company or the preferred shareholder with 30 days' notice. If a put–call option is exercised by either party, the preferred shareholder will pay $1.60 and will receive a common share of the Company, and a series 1 special voting preferred share owned by the preferred shareholder will be canceled.

On June 14, 2016, the remaining put-call option was exercised for $7.0 million ($6.6 million net of share issuance costs) resulting in the issuance of 4,375,000 common shares and the cancellation of 4,375,000 special voting preferred shares. In connection with the put-call option exercise, the Company incurred $385,000 of share issuance costs ($281,000 net of deferred tax).

	Preferred Shares		Put-Call Options	
($000s except for share amounts)	Number	Amount	Number	Amount
Balance, December 31, 2014	4,375,000	-	4,375,000	-
BALANCE AT DECEMBER 31, 2015	**4,375,000**	**-**	**4,375,000**	**-**
Exercised	(4,375,000)	-	(4,375,000)	-
BALANCE AT DECEMBER 31, 2016	**-**	**-**	**-**	**-**

SUPPLEMENTARY QUARTERLY INFORMATION

The supplementary quarterly information below includes financial information of the Company since the Viking acquisition which closed on June 15, 2016.

($000s)	For the quarter ended Dec. 31, 2016	For the quarter ended Sept. 30, 2016
Petroleum and natural gas sales	2,601	1,756
Funds flow used for operations	(340)	(652)
AVERAGE SALES VOLUMES		
Oil (bbl/d)	457	341
Natural gas liquids (bbl/d)	7	5
Natural gas (Mcf/d)	792	747
TOTAL PRODUCTION (BOE/d)	**596**	**470**
AVERAGE BENCHMARK PRICES		
Crude oil - WTI ($US/bbl)	49.29	44.94
Crude oil - Canadian light sweet ($CDN/bbl)	60.76	54.19
Natural gas - AECO-C spot ($CDN/mcf)	3.11	2.36
Exchange Rate - ($US/$CAD)	0.75	0.77
FIELD NETBACK ($/BOE)		
Revenue	47.45	40.59
Royalties	(2.80)	(2.47)
Operating expense	(29.74)	(38.14)
Transportation expense	(2.34)	(2.03)
Field Netback ($/BOE)	**12.57**	**(2.05)**
General and administration	(23.43)	(14.12)
Financing	1.81	1.50
Deferred income tax recovery (expense)	76.38	-
CASHFLOW NETBACK ($/BOE)	**67.33**	**(14.67)**

NET INCOME SUMMARY

	For the year ended December 31, 2016		For the year ended December 31, 2015	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	4,678	44.17	1,616	53.53
Royalties	(276)	(2.61)	(126)	(4.18)
NET REVENUE	**4,402**	**41.56**	**1,490**	**49.35**
Operating	3,540	33.43	639	21.17
Transportation	216	2.04	-	-
General and administration	3,812	36.00	1,505	49.86
Depletion, depreciation and amortization	1,795	16.95	1,125	37.28
Accretion	247	2.33	13	0.43
Share-based compensation	4,272	40.34	1,567	51.93
Exploration and evaluation - expiries	57	0.54	-	-
Impairment (recovery)	(247)	(2.33)	5,177	171.55
Transaction costs	106	1.00	-	-
Bad debt expense	-	-	231	0.01
LOSS BEFORE OTHER ITEMS	**(9,396)**	**(88.74)**	**(8,767)**	**(282.88)**
Interest income	256	2.42	196	6.48
LOSS FROM OPERATIONS BEFORE TAXES	**(9,140)**	**(86.32)**	**(8,571)**	**(276.40)**
Deferred income tax recovery	(4,187)	(39.54)	-	-
NET LOSS AND COMPREHENSIVE LOSS	**(4,953)**	**(46.78)**	**(8,571)**	**(276.40)**

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at December 31, 2016 are as follows:

	2017	**2018**	**2019**	**2020**	**2021**	**Therafter**	**Total**
Operating leases	191,355	329,432	497,523	596,984	164,145	-	1,779,439
Pipeline transportation	61,359	11,689	-	-	-	-	73,048
Total annual commitments	**252,714**	**341,121**	**497,523**	**596,984**	**164,145**	**-**	**1,852,487**

Karve has a five year office lease with an option to both Karve and the lessor to terminate the lease at any time after July 19, 2019. The lessor has the right to terminate the office lease with 6 months written notice at any point after July 30, 2019. There is no compensation to Karve should Karve terminate the lease after this date.

Karve has the right to terminate the lease if there is a sale of Karve. If Karve terminates the lease, there is a $600,000 penalty. Should Karve terminate the lease prior to July 30, 2019, Karve is required to pay lease payments up to July 30, 2019 with no payment required for lease payments after July 30, 2019.

The "Deferred lease liability" of $108,000 presented on the consolidated statement of financial position represents 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. 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.

RELATED PARTY DISCLOSURES

A previous Director of the Company, until June 15, 2016, was a Director of a company which received office rental payments of $80,000 (year ended December 31, 2015 - $112,000) from Karve. The Company also incurred a total of $317,000 (December 31, 2015 -$101,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at December 31, 2016, $72,000 in fees for these legal services are included in accounts payable (December 31, 2015 - $nil).

On August 17, 2016, Karve signed a purchase and sale agreement with a company owned by certain members of the Karve management team, wherein the Company purchased $7,000 of office equipment, reimbursed the related company for incurred third party consulting fees and software licenses of $90,000 and issued 43,000 common shares at $1.00 per share to the related company in return for a payment of $43,000. All payments resulted in a total issuance of 140,000 common shares at $1.00 per share. This transaction has been reviewed and approved by the Board of Directors.

CAPITAL RESOURCES AND LIQUIDITY

Equity

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at December 31, 2016, there were 64,752,604 common shares outstanding (December 31, 2015 – 25,789,279).

All stock options and performance warrants to the previous Bruin management were cancelled on June 15, 2016, and a new stock option and performance warrant plan has been put in place by the Board of Directors for the Karve management team. As at March 29, 2017, the date of this MD&A, there were 64,752,604 common shares, 6,475,000 stock options and 16,125,000 performance warrants outstanding.

Liquidity

The Company relies on operating cash flows 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 to year end, the Company entered into a $1.0 million revolving operating demand facility with a Canadian chartered bank.

SUBSEQUENT EVENTS

Stock Option Grant

On February 1, 2017 and March 29, 2017, a total of 110,000 stock options were granted to certain employees and consultants of the Company at an exercise price of $1.65 per share under the Company's stock option plan.

Revolving Operating Demand Facility

On February 1, 2017, the Company entered into a $1.0 million revolving operating demand facility with a Canadian chartered bank. The facility has a standby fee of 0.50% per annum on the undrawn portion of the facility and bears interest at prime plus 1.00% per annum. The facility requires that the Company maintain a working capital ratio (as defined) of not less than 1 to 1.

Asset Sale

On February 8, 2017, the Company disposed of all its' undeveloped lands in Fiske, Saskatchewan for proceeds of $451,000. There was no gain or loss on this sale.

Hedging Contract

On March 3, 2017, the Company entered into a sell side crude oil commodity contract with a Canadian chartered bank. The effective date of the contract is April 1, 2017. The contract is for 300 barrels per day of oil at a fixed price of $72.25 CAD per barrel. This contract terminates September 30, 2017.

RECENT DEVELOPMENTS

Alberta Modernized Royalty Framework

On January 1, 2017, the Alberta Modernized Royalty Framework (the "MRF") came into effect. The MRF will apply to wells drilled on or after January 1, 2017. Existing wells will continue to be governed by current royalty system for ten years, after which time, the MRF will apply. The MRF will apply different royalty rates in three stages of the life cycle of a well, Pre-C*, Post-C*, and Post-C* Mature. Note that C* is the revised Drilling and Completion Cost Allowance which is based on industry average drilling and completion costs to be used as a proxy for well costs. Initially, Karve will pay a flat 5% royalty on production until total revenue from the well equals C*. Once the C* threshold has been met the royalty rate will fluctuate with market pricing to a maximum of 40% on oil production and 36% on natural gas production, until monthly production from the well is below 194 m3e for oil wells or 345.5 e3m3e for gas wells (the "Maturity Threshold"), where a quantity adjustment is introduced tying the royalty rate to reduced production levels.

The full extent of the impact of the MRF on Karve's future financial performance is still being evaluated, however the Company does not expect royalty rates to change significantly from current royalty rates of 5.9% of revenue.

Alberta Carbon Levy

An initial economy-wide levy of $20 per tonne was implemented on January 1, 2017, increasing to $30 per tonne in January 2018. All fuel consumption, including gasoline and natural gas, will be subject to the levy, with certain exemptions.

There are certain exemptions to the carbon levy. Until 2023, fuels consumed, flared or vented in a production process by conventional oil and gas producers will be exempt from the carbon levy. As activities integral to oil and gas production processes are exempt until 2023, Karve expects our operations to have minimal direct carbon levy exposure until 2023. Karve has applied for and obtained its Alberta Carbon Levy Exemption Certificate for various fuel types used in its' production process. Currently, the most significant impact of the carbon levy is increased oil trucking costs as vendors pass the carbon levy down to Karve through increased trucking rates.

When the exemption certificate expiries in 2023, the Company expects the cost of operating its Alberta properties to increase due to the carbon levy.

OFF BALANCE SHEET ARRANGEMENTS

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

All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at December 31, 2016.

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 consolidated statement of cash flows in the annual consolidated financial statements and is presented before the change in non-cash operating working capital. The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:

	For the year ended	
($000s)	Dec. 31, 2016	Dec. 31, 2015
Cash flow from (used for) continuing operations	3,971	(1,298)
Change in non-cash working capital	(6,867)	(11)
FUNDS FLOW USED FOR OPERATIONS	**(2,896)**	**(1,309)**

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 net available working capital which is not a recognized measure under IFRS. Management believes this measure is 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. Net available working capital represents current assets less current liabilities and is used to assess efficiency, liquidity and the general financial strength of the Company. Finding, development and acquisition ("FD&A") cost is the sum of capital expenditures incurred in the period and the change in the future development capital ("FDC") required to develop reserves. FD&A cost per boe is determined by dividing current period net reserve additions into the corresponding periods FD&A cost. 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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Justin Crawford
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Vice President, Engineering

Robert Verbuck
Corporate Secretary

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