MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2018

AND DECEMBER 31, 2017

March 27, 2019

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our November 7, 2018 letter to shareholders.

Karve is very proud to share that on March 20, 2019, the company was recognized by EPAC as ***"Top Junior Producer"*** for 2019. To qualify for this award, nominees had to be producing between 10,000 and 25,000 boe/d during 2018 and demonstrate best in class metrics. Karve was one of 7 nominees evaluated and ultimately chosen as the recipient based on superior financial and operating performance, technical innovation, environmental initiatives and community engagement.

Karve had a record year in 2018 in terms of capital activity, having spent $119.7 million on development activities to drill 110 gross wells (106.1 net) and complete 91 gross wells (88.2 net) and advance Karve's waterflood and facility initiatives. Karve deferred 22 completions into the first half of 2019 in order to capture improved economics on flush production from a stronger oil price environment.

Also in 2018, Karve completed a non-core asset divestiture of approximately 3,500 boe/d of predominantly shallow gas and medium Mannville oil production. This divestiture significantly high-graded our asset portfolio and provided proceeds of $30.7 million (after closing adjustments). Karve also completed a strategic acquisition at year-end 2018 (approximately 900 boe/d) for net proceeds of $10.7 million in one of Karve's core areas.

We are currently producing approximately 9,000 boe/d (70% liquids). In the fourth quarter of 2018 we produced an average of 8,745 boe/d (75% liquids). In 2018, we increased average oil production 93% per share compared to 2017 with barrel of oil equivalent production increasing 92% per share over the same period. While production has increased year over year, operating expenses have remained flat at $15.67/boe in 2018 compared to $15.69 in 2017.

From inception in June of 2016 to March 27, 2019, we have brought a total of 179 gross horizontal Viking oil wells on production, including 10 wells in 2016, 66 wells in 2017, 91 wells in 2018 and 12 wells to date in 2019. We continue to be encouraged by our results on both the original Consort/Hamilton Lake property as well as the Provost properties.

Sproule Associates Limited, an independent reserves evaluator, completed a reserve report dated December 31, 2018. Proved plus probable reserve volumes have increased from 29.6 to 31.5 MMBOE and the BT NPV 10 reserves value has increased from $385.6 to $528.7 million, an increase year over year of 37%. On a per share basis, 2P reserve volumes increased 7% per share with reserve value increasing 33% on a per share basis. In the attached management's discussion and analysis (MD&A) we have included a summary of the Sproule Report.

On December 3, 2018 Karve closed a senior secured revolving credit facility with a syndicate of banks which provides borrowing capacity of $100.0 million.

With the uncertainty in the market regarding pipelines and differentials, Karve is taking a conservative approach to its 2019 capital program. Karve will be running a cash flow budget based on strip pricing and as such, our 2019 capital program consists of spending $85.0 million, drilling 38 gross horizontal Viking wells, completing and tieing in 60 gross horizontal Viking wells for $53.0 million, as well as waterflood, facility and abandonment capital of $32.0 million.

We will hold our Annual General Meeting ("AGM") on Wednesday May 8, 2019 at 2:00PM at our offices located at Suite 1700, 205 5 AVE SW, Calgary, Alberta. At the AGM, among other items, we will provide an update. All shareholders and stakeholders are welcome to attend the AGM.

You will find enclosed the Karve Energy Inc. audited consolidated financial statements and MD&A for the years ended December 31, 2018 and December 31, 2017. 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 years ended December 31, 2018 and December 31, 2017. It is dated March 27, 2019 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 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 year ended	
FINANCIAL *(Canadian $000, except per share and per boe amounts)*	Dec. 31, 2018	Dec. 31, 2017
Net income	30,557	1,067
Per share - basic	0.22	0.01
Per share - diluted	0.21	-
Funds flow from operations (1)	69,814	31,484
Per share - basic (1)	0.51	0.34
Per share - diluted (1)	0.48	0.29
Adjusted funds flow from operations (1)	75,615	34,445
Per share - basic (1)	0.55	0.38
Per share - diluted (1)	0.52	0.32
Capital expenditures (before acquisitions and dispositions)	119,661	71,541
Net acquisitions (dispositions)	(18,207)	120,202
Total net capital expenditures	101,454	191,743
Adjusted positive working capital (net debt) (1)	(24,976)	11,109
Total assets	314,741	260,683
Shares outstanding, weighted average (000s)	137,258	91,719
Shares outstanding, end of year (000s)	137,269	137,199
OPERATIONAL		
Sales volumes		
Oil (bbl/d)	5,746	3,006
NGLs (bbl/d)	374	164
Natural gas (mcf/d)	18,289	9,603
Total (boe/d)	**9,168**	**4,771**
Average sales prices (excluding hedging gains and losses)		
Oil ($/bbl)	62.68	58.40
NGLs ($/bbl)	52.68	51.68
Natural gas ($/mcf)	1.68	1.59
Boe basis ($/boe)	**44.80**	**41.78**
Field netback ($/boe excluding hedging gains and losses)		
Sales price	44.80	41.78
Royalties	(3.05)	(2.47)
Operating expense	(15.67)	(15.69)
Transportation expense	(2.14)	(1.70)
Field netback (1)	**23.94**	**21.92**

(1) Non-GAAP measure, see page 19 for details.

RESERVES SUMMARY

The following is a summary of reserves for the Company's total reserves which are located in the Provost area as at December 31, 2018 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 reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta as at December 31, 2018.

GROSS RESERVES SUMMARY[1,2]					Dec. 31, 2018
		Oil	NGLs	Natural Gas	6:1
Karve interest	% Liquids	Mbbl	Mbbl	MMcf	MBOE
Proved developed producing	63%	6,320	380	23,504	10,617
Proved non-produding and undeveloped	82%	9,329	250	13,033	11,751
TOTAL PROVED	**73%**	**15,649**	**630**	**36,537**	**22,368**
Probable	72%	6,341	265	15,345	9,164
TOTAL PROVED PLUS PROBABLE	**73%**	**21,990**	**895**	**51,882**	**31,532**

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2018. Table may not add due to rounding.

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

The reserves summary table below is a summary of the reserves attributable to Karve's interest in the Provost area of Alberta as at December 31, 2017 for comparison to December 31, 2018.

GROSS RESERVES SUMMARY[1,2]					Dec. 31, 2017
Karve interest		Oil	NGLs	Natural Gas	6:1
	% Liquids	Mbbl	Mbbl	MMcf	MBOE
Proved developed producing	46%	6,675	977	53,350	16,543
Proved non-produding and undeveloped	95%	3,695	20	1,100	3,899
TOTAL PROVED	**56%**	**10,370**	**997**	**54,450**	**20,442**
Probable	53%	4,382	468	25,593	9,116
TOTAL PROVED PLUS PROBABLE	**55%**	**14,752**	**1,465**	**80,043**	**29,558**

(1) Based on Sproule Associates Limited estimated reserves as at December 31, 2017. Table may not add due to rounding.

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

The reserves comparison compares the December 31, 2018 reserve report to the December 31, 2017 reserve report:

GROSS RESERVES COMPARISON[1,2]	Dec. 31, 2018	Dec. 31, 2017	% Change
Karve interest	MBOE	MBOE	
Proved developed producing	10,617	16,543	-36%
Proved non-produding and undeveloped	11,751	3,899	201%
TOTAL PROVED	**22,368**	**20,442**	**9%**
Probable	9,164	9,116	1%
TOTAL PROVED PLUS PROBABLE	**31,532**	**29,558**	**7%**

(1) Sproule Associates Limited estimated reserves as at December 31, 2018 and December 31, 2017. Table may not add due to rounding.

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

Proved Developed Producing reserves declined due to disposition of non-core shallow gas and Mannville assets in the second quarter of 2018.

The reserve life index is based on production of approximately 9,000 boe/d as of December 31, 2018 (December 31, 2017 – 10,500 boe/d).

RESERVE LIFE INDEX	Dec. 31, 2018[1]	Dec. 31, 2017[2]
Total proved	6.8	5.3
Total proved plus probable	9.6	7.7

(1) Based on production of approximately 9,000 BOE/d as of December 2018.

(2) Based on production of approximately 10,500 BOE/d as of December 2017.

The future development capital as at December 31, 2018 is as follows:

FUTURE DEVELOPMENT CAPITAL ($000s)	Dec. 31, 2018	Dec. 31, 2017
Total proved plus probable	304,550	102,536

Net present values are based on Sproule December 31, 2018 forecast pricing assumptions.

NET PRESENT VALUE, BEFORE TAX[1,2]				Dec. 31, 2018
Karve interest ($000s)	Undiscounted	5%	10%	15%
Proved developed producing	242,789	224,317	202,183	182,905
Proved non-produding and undeveloped	232,138	178,853	137,002	105,031
TOTAL PROVED	**474,927**	**403,170**	**339,185**	**287,936**
Probable	305,142	237,316	189,535	156,472
TOTAL PROVED PLUS PROBABLE	**780,069**	**640,486**	**528,720**	**444,408**

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2018. Table may not add due to rounding.
(2) Karve working interest reserves, before royalty interests.

The net present values below are based on Sproule December 31, 2017 forecast pricing assumptions for comparison to December 31, 2018.

NET PRESENT VALUE, BEFORE TAX[1,2]				Dec. 31, 2017
Karve interest ($000s)	Undiscounted	5%	10%	15%
Proved developed producing	256,700	233,159	206,156	183,244
Proved non-produding and undeveloped	85,697	68,186	53,684	42,201
TOTAL PROVED	**342,397**	**301,345**	**259,840**	**225,445**
Probable	215,321	164,862	125,735	100,274
TOTAL PROVED PLUS PROBABLE	**557,718**	**466,207**	**385,575**	**325,719**

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2017. Table may not add due to rounding.
(2) Karve working interest reserves, before royalty interests.

The net present value comparison compares the value attributed to Karve's reserves as of December 31, 2018 as compared to the value attributed to Karve's reserves as of December 31, 2017. Note that due to different pricing assumptions for the two periods (pricing based on Sproule December 31, 2018 and December 31, 2017 price deck, respectively), the table below should be used for directional purposes only.

NET PRESENT VALUE COMPARISON, BEFORE TAX[1,2]	Dec. 31, 2018	Dec. 31, 2017	% Change
Karve interest ($000s)	10%	10%	
Proved developed producing	202,183	206,156	-2%
Proved non-produding and undeveloped	137,002	53,684	155%
TOTAL PROVED	**339,185**	**259,840**	**31%**
Probable	189,535	125,735	51%
TOTAL PROVED PLUS PROBABLE	**528,720**	**385,575**	**37%**

(1) Sproule Associates Limited estimated reserves as at December 31, 2018 and December 31, 2017. Table may not add due to rounding.
(2) Karve working interest reserves, before royalty interests.

The net present value, after tax, is based on Sproule December 31, 2018 pricing assumptions, future development capital and estimated Karve's tax pools as of December 31, 2018.

NET PRESENT VALUE, AFTER TAX[1,2]				Dec. 31, 2018
Karve interest ($000s)	Undiscounted	5%	10%	15%
Proved developed producing	224,767	208,640	188,277	170,370
Proved non-produding and undeveloped	164,276	121,895	87,976	61,985
TOTAL PROVED	**389,043**	**330,535**	**276,253**	**232,355**
Probable	223,814	172,703	136,083	110,872
TOTAL PROVED PLUS PROBABLE	**612,857**	**503,238**	**412,336**	**343,227**

(1) Based on Sproule Associates Limited estimated reserves and forecast prices as at December 31, 2018. Table may not add due to rounding.
(2) Karve working interest reserves, before royalty interests.

FINDING, DEVELOPMENT & ACQUISTION COSTS ($000s, except per boe amounts)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Capital expenditures (excluding acquisitions/dispositions) (1)	117,248	71,541
Change in future development costs (FDC) (2)	202,014	90,263
TOTAL	**319,262**	**161,804**
Acquistions (net of dispositions)	(18,207)	120,202
TOTAL CAPITAL EXPENDITURES INCLUDING FDC	**301,055**	**282,006**

(1) Capital expenditures for the year ended December 31, 2018 exclude decommissioning expenditures of $5.4 million. December 31, 2017 restated to exclude decommissioning expenditures of $945,000.

(2) FDC as at December 31, 2018 was $304.6 million (December 31, 2017 - $102.5 million).

RESERVE ADDITIONS - PROVED PLUS PROBABLE (MBOE)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Reserve additions (1)	12,821	10,246
Acquisitions (dispositions) reserve changes	(7,501)	20,310
RESERVE ADDITIONS INCLUDING ACQUISITIONS/DISPOSITIONS	**5,320**	**30,556**

(1) Reserve additions include infrill drilling and extensions and technical revisions.

Due to the divestiture of non-core shallow gas and Mannville assets with significant reserves volumes and minimal future development capital, Karve's 2018 FD&A cost of $56.59/boe is abnormally inflated, resulting in a recycle ratio of only 0.5x. However, Karve's 3-year average FD&A cost is $17.06/boe resulting in a recycle ratio of 1.5x.

COMPANY METRICS - PROVED PLUS PROBABLE	Dec. 31, 2018	Dec. 31, 2017	Three-Year Average
Finding & development costs (F&D) ($/boe) (1)	20.00	15.79	19.51
Finding, development & acquisition costs ($/boe) (1)(2)	56.59	9.23	17.10
Operating netback ($/boe) (3)	26.49	24.04	26.05
Recycle ratio - F&D	1.3x	1.5x	1.3x
Recycle ratio - FD&A	0.5x	2.6x	1.5x

(1) December 31, 2017 F&D and FD&A ($/boe) restated to exclude decommissioning expenditures of $945,000.

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

(3) Recycle ratio is based on 2018 operating netback of $23.94/boe plus other income of $2.55/boe (processing and royalty income).

RESERVES RECONCILATION (MBOE)	Total Proved	Total Proved plus Probable
December 31, 2017	20,442	29,558
Infill drilling and extensions	8,099	11,235
Acquisitions/Dispositions	(5,142)	(7,501)
Technical revisions	2,315	1,586
Production	(3,346)	(3,346)
DECEMBER 31, 2018	**22,368**	**31,532**

SALES VOLUMES

Sales volumes averaged 9,168 boe/d during the year ended December 31, 2018 compared to 4,771 boe/d for the year ended December 31, 2017. The increase in sales volumes from the year ended December 31, 2017 is due to the Provost acquisition which closed on August 15, 2017, the Alliance acquisition which closed on October 31, 2018 and are currently producing approximately 900 boe/d, and bringing 91 gross (88.2 net) horizontal wells on production during the year ended December 31, 2018. A total of 167 (163.2 net) wells have been drilled, completed and added to production since inception. These increases were 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 that decreased production approximately 3,500 boe/d. Average Company production is approximately 9,000 boe/d (70% liquids) for the last week of March 2019.

AVERAGE SALES VOLUMES	For the year ended Dec. 31, 2018	Dec. 31, 2017
Oil (bbl/d)	5,746	3,006
Natural gas liquids (bbl/d)	374	164
Natural gas (mcf/d)	18,289	9,603
TOTAL SALES VOLUMES (boe/d)	**9,168**	**4,771**

SALES PRICES AND REVENUE

For the year ended December 31, 2018, the Company generated total revenue of $150.0 million (year ended December 31, 2017 - $72.8 million) on average sales volumes of 9,168 boe/d. Revenue is recorded before transportation expenses. The average sales price per boe for the year ended December 31, 2018 was $44.80 compared to $41.78 for the year ended December 31, 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 natural gas weighted assets.

	For the year ended	
KARVE AVERAGE REALIZED PRICE (1)	Dec. 31, 2018	Dec. 31, 2017
Revenue ($000s)	149,900	72,750
Oil ($/bbl)	62.68	58.40
NGLs ($/bbl)	52.68	51.68
Natural gas ($/mcf)	1.68	1.59
Karve realized price ($/boe)	**44.80**	**41.78**
AVERAGE BENCHMARK PRICES (2)		
Crude oil - WTI ($US/bbl)	64.77	50.80
Crude oil - Canadian light sweet ($CDN/bbl)	68.49	61.84
Natural gas - AECO-C spot ($CDN/mcf)	1.53	2.20
Exchange Rate - ($US/$CAD)	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.

DERIVATIVE CONTRACTS

From time to time, the Company may hedge a portion of its crude oil sales through the use of financial derivative contracts. In accordance with standard industry practice, financial derivative contracts are marked to market.

At December 31, 2018, the Company did not have any commodity contracts in place. The Company had the following financial derivative contracts in place at December 31, 2017:

Type	Term	Basis (1)	Volume (Bbl/d)	Swap Price ($CAD/Bbl) (1)	Current Net Asset/(Liability) ($000s)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	300	70.55	(419)
Fixed price swap	Jan. 1/18 - Dec. 31/18	WTI	200	71.10	(239)
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**500**	**70.77**	**(658)**

(1) Nymex WTI monthly average in $CAD.

Type	Term	Basis (1)	Volume (Bbl/d)	Sold Put Price ($CAD/Bbl) (1)	Current Net Asset/(Liability) ($000s)
Put option	Jan. 1/18 - Dec. 31/18	WTI	1,500	64.00	712
TOTAL VOLUME AND WEIGHTED AVERAGE PRICE			**1,500**	**64.00**	**712**

(1) Nymex WTI monthly average in $CAD.

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

	For the year ended	
($000s)	Dec. 31, 2018	Dec. 31, 2017
Realized gain (loss) on financial derivative contracts	(4,076)	528
Unrealized gain on financial derivative contracts	-	54
GAIN (LOSS) ON FINANCIAL DERIVATIVE CONTRACTS	**(4,076)**	**582**

ROYALTIES

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2018	Dec. 31, 2017
Royalties	10,196	4,294
Royalties as a % of revenue	6.8%	5.9%
Per boe ($)	3.05	2.47

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the year ended December 31, 2018 was $10.2 million ($3.05 per boe) compared to $4.3 million ($2.47 per boe) for the year ended December 31, 2017. For the year ended

December 31, 2018, the Company's royalty rate was 6.8% of revenues (year ended December 31, 2017 – 5.9%). The increase in royalty rate relates to higher oil crown royalties as a number of horizontal Viking wells came off royalty holiday in 2018. The Company expects its royalty rate to increase slowly over time.

OPERATING EXPENSE

($000s, except per boe amounts)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Operating expense	52,440	27,321
Per boe ($)	15.67	15.69

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 $52.4 million ($15.67 per boe) during the year ended December 31, 2018 and $27.3 million ($15.69 per boe) for the year ended December 31, 2017. Operating expenses per boe remained consistent during the year ended December 31, 2018 compared to the year ended December 31, 2017. In the future, as more horizontal wells come on production, the operating expense per boe is expected to decrease due to the fixed nature of a considerable portion of the expenses which are allocated over increasing production volumes and efficiencies in operating the assets over time.

TRANSPORTATION EXPENSE

($000s, except per boe amounts)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Transportation expense	7,149	2,957
Per boe ($)	2.14	1.70

Transportation expense includes costs paid to third parties for transporting clean oil and sales gas to the third party pipeline or processing plant point of sale. Transportation expenses were $7.1 million ($2.14 per boe) during the year ended December 31, 2018 and $3.0 million ($1.70 per boe) for the year ended December 31, 2017. This increase was due to higher sales volumes in 2018.

FIELD NETBACK

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

	For the year ended December 31, 2018		For the year ended December 31, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Revenue	149,900	44.80	72,750	41.78
Royalties	(10,196)	(3.05)	(4,294)	(2.47)
Operating expense	(52,440)	(15.67)	(27,321)	(15.69)
Transportation expense	(7,149)	(2.14)	(2,957)	(1.70)
FIELD NETBACK ($) (1)	**80,115**	**23.94**	**38,178**	**21.92**

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

OTHER INCOME

($000s, except per boe amounts)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Processing fee income	4,156	1,247
Royalty income	3,698	1,148
Other	668	169
Total other income	8,522	2,564
Per boe ($)	2.55	1.47

Other income for the year ended December 31, 2018 was $8.5 million ($2.55 per boe) and $2.6 million ($1.47 per boe) for the year ended December 31, 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 and processing fee income is a result of a full year of income from the assets acquired on August 15, 2017. In addition, in conjunction with the disposition that closed on June 14, 2018, the Company retained fee title land and entered into processing agreements for third party production.

Other income totalling $668,000 for the year ended December 31, 2018 (year ended December 31, 2017 - $169,000) relates to road use income, seismic licensing income, and contract operating income.

GENERAL AND ADMINISTRATION EXPENSE ("G&A")

The following are the main components of G&A for the year ended December 31, 2018 and December 31, 2017:

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2018	Dec. 31, 2017
Staff and consulting costs	8,562	6,434
Professional fees	659	689
Office and rent costs	1,930	1,141
Other	1,381	789
General and administration expense (gross)	12,532	9,053
Capitalized G&A and overhead recovery	(3,376)	(1,853)
General and administration expense (net)	9,156	7,200
Per boe ($)	2.74	4.13

General and administrative expenses (net) for the year ended December 31, 2018 were $9.2 million ($2.74 per boe) and $7.2 million ($4.13 per boe) for the year ended December 31, 2017. The increase in gross G&A during the year ended December 31, 2018 compared to the year ended December 31, 2017 is due 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 year ended December 31, 2018 to December 30, 2017.

The table below reconciles cash G&A expenditures:

	For the year ended	
	Dec. 31, 2018	Dec. 31, 2017
General and administration expense (net)	9,156	7,200
Non-cash deferred lease expense	(78)	(231)
Cash general and administration expense (net)	9,078	6,969
Per boe ($)	2.71	4.00

SHARE-BASED COMPENSATION EXPENSE

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2018	Dec. 31, 2017
Share-based compensation - options	4,082	2,653
Share-based compensation - performance warrants	3,036	3,285
Share based compensation expense	7,118	5,938
Per boe ($)	2.13	3.41

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 year ended December 31, 2018 was $4.1 million (year ended December 31, 2017 - $2.7 million) and SBC expense related to performance warrants for the year ended December 31, 2018 was $3.0 million (year ended December 31, 2017 - $3.3 million) using the graded vesting method.

As at December 31, 2018, 13,442,260 stock options and 32,485,500 performance warrants were outstanding. The weighted average exercise price of stock options and performance warrants outstanding was $1.57 per option and $2.88 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 December 31, 2018, 5,871,828 stock options and 6,470,000 performance warrants were exercisable.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the year ended December 31, 2018, depletion expense increased to $42.7 million (year ended December 31, 2017 - $21.0 million) due to increases in total production, net carrying value, and future development costs, offset by the disposition of non-core assets that closed on June 14, 2018. Depletion expense per boe slightly increased during the year ended December 31, 2018, due to increased capital expenditures in 2018 and increased production.

	For the year ended	
($000s, except per boe amounts)	Dec. 31, 2018	Dec. 31, 2017
Depletion	42,592	21,020
Depreciation and amortization	82	24
Total DD&A ($)	42,674	21,044
Per boe ($)	12.75	12.09

INCOME TAX

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, 2018 at 27% (December 31, 2017 – 27%). A reconciliation to the differences is as follows:

	For the year ended	
($000s)	Dec. 31, 2018	Dec. 31, 2017
Net income before taxes	39,058	3,662
Combined federal and provincial tax rate	27.0%	27.0%
Computed "expected" tax expense (recovery)	10,546	989
Increase in taxes due to:		
Permanent differences	(2,373)	1,615
Other	328	(9)
TOTAL INCOME TAX	**8,501**	**2,595**
Current income tax	-	-
Deferred income tax expense	8,501	2,595
TOTAL INCOME TAX	**8,501**	**2,595**

The following table summarizes Karve's net deferred income tax asset (liability) at December 31, 2018:

	Balance at Jan. 1, 2017	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2018
Non-capital losses	5,841	(2,751)	-	3,090
Share issue costs	648	(240)	-	408
PP&E and E&E assets	(3,867)	(5,582)	(5,969)	(15,418)
Derivative assets	(15)	72	-	57
TOTAL DEFERRED INCOME TAX ASSET (LIABILITY)	**2,607**	**(8,501)**	**(5,969)**	**(11,863)**

The following table summarizes Karve's net deferred income tax asset at December 31, 2017:

	Balance at Jan. 1, 2018	Recognized in Income (Loss)	Recognized in Statement of Financial Position	Balance at Dec. 31, 2018
Non-capital losses	4,633	1,208	-	5,841
Share issue costs	321	(241)	568	648
PP&E and E&E assets	(320)	(3,547)	-	(3,867)
Unrecognized deferred tax-assets	-	(15)	-	(15)
TOTAL DEFERRED INCOME TAX ASSET (LIABILITY)	**4,634**	**(2,595)**	**568**	**2,607**

The following table summarizes Karve's income tax pools available for deduction:

($000s)	As at Dec. 31, 2018
Non-capital losses	11,444
Canadian exploration expense	150
Canadian development expense	82,767
Canadian oil and gas property expense	68,528
Capital cost allowance	75,002
Share issue costs	1,509
TOTAL TAX POOLS AVAILABLE FOR DEDUCTION	**239,400**

As at December 31, 2018, the deferred tax liability was $11.9 million (as at December 31, 2017 deferred tax asset - $2.6 million) resulting in a deferred tax expense for the year ended December 31, 2018 of $8.5 million (year ended December 31, 2017 - $2.6 million). The Company's non-capital losses expire between 2034 and 2038.

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the year ended December 31, 2018 consisted of the following:

($000s)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Drilling	36,114	25,420
Completions	38,322	29,038
Facilities and well equipment	42,708	16,611
Geological and geophysical	104	-
Land	1,895	318
Acquistions	12,448	120,882
Dispositions	(30,655)	(680)
Office equipment	518	154
TOTAL NET CAPITAL EXPENDITURES AND ACQUISITIONS	**101,454**	**191,743**

During the year ended December 31, 2018, the Company drilled 110 gross (106.1 net) wells and completed 91 gross (88.2 net) horizontal Viking oil wells. During the year ended December 31, 2017, the Company drilled 70 gross (68.7 net) wells and completed 67 gross (66.1 net) horizontal Viking oil wells. Since November 2016, the Company drilled a total of 190 gross (184.9 net) and completed 166 gross (162.2 net) horizontal Viking oil wells to December 31, 2018.

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

For the quarter ended	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017
Drilled - Gross (Net)	21 (20.5)	52 (49.1)	12 (11.5)	25 (25.0)	23 (22.1)
Completed - Gross (Net)	9 (8.5)	49 (46.1)	9 (8.9)	24 (24.7)	23 (22.4)
On production - Gross (Net)	19 (18.3)	44 (41.2)	4 (4.0)	24 (24.7)	23 (22.4)

For the quarter ended	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Drilled - Gross (Net)	23 (22.1)	25 (24.8)	8 (7.9)	14 (13.9)	10 (9.93)
Completed - Gross (Net)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.93)
On production - Gross (Net)	23 (22.4)	29 (28.8)	5 (5.0)	9 (8.9)	10 (9.93)

ACQUISITION OF OIL AND GAS ASSETS

Alliance Acquisition

On October 31, 2018, the Company acquired assets in the Alliance area of Alberta ("Alliance Acquisition") that complement Karve's existing asset base for a total purchase price of $10.7 million. The assets are currently producing approximately 900 boe/d, and include future drilling locations in the Alliance area. The effective date of the acquisition was May 1, 2018.

($000s)	
Net working capital	1,251
Property, plant and equipment	37,122
Decommissioning liabilities	(5,544)
Deferred tax liabilities	(5,969)
FAIR VALUE OF NET ASSETS ACQUIRED	**26,860**
CONSIDERATION	
Cash	10,720
TOTAL PURCHASE PRICE	**10,720**
GAIN ON ACQUISITION	**(16,140)**

During the year ended December 31, 2018, the Company incurred $34,000 of transaction costs for the Alliance Acquisition which were included in "Transaction costs" in the Company's consolidated statement of net income and comprehensive income.

The Company's consolidated statement of net income and comprehensive income includes the results of the operations for the period following closing of the Alliance Acquisition on October 31, 2018 to December 31, 2018. The Company's net income and comprehensive income for the year ended December 31, 2018 includes $837,000 million of revenue and $1.1 million of operating loss relating to the acquired assets. If the acquisition had closed on January 1, 2018, pro-forma revenue and operating income are estimated to have been $167.0 million and $86.9 million respectively for the year ended December 31, 2018. 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.

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

Throughout 2018, 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 $30.7 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 the year ended December 31, 2018 are summarized below:

($000s)	
Property, plant and equipment (NOTE 12)	40,855
Exploration and evaluation assets (NOTE 13)	228
Decommissioning liabilities (NOTE 15)	(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 41% 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 Dec. 31, 2018	As at Dec. 31, 2017
Balance, beginning of year	-	-
Investment in PrivateCo	3,000	
Equity share of loss	(435)	-
BALANCE, END OF YEAR	**2,565**	**-**

The net loss of PrivateCo for the year ended December 31, 2018 was $1.1 million.

DECOMMISSIONING LIABILITY

At December 31, 2018, the Company estimated a decommissioning liability of $12.5 million for the future abandonment and reclamation of Karve's properties (December 31, 2017 – $24.2 million). $2.5 million is presented as a current liability as managements intends to decommission certain wells within the next 12 months and the remaining $10.0 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 $174.5 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 December 31, 2018, a 1% decrease in the discount rate used would create approximately a $3.2 million increase in the decommissioning liability, and a 1% increase in the discount rate used would create approximately a $2.3 million decrease in the decommissioning liability.

OPERATING LOAN AND LONG TERM DEBT

On December 3, 2018 the Corporation increased its bank credit facilities to $100.0 million comprised of $90.0 million syndicated committed facility ("Credit Facility") and a $10.0 million operating loan. The Credit Facility is a committed 364 days + 1 year and extendible annually. The Credit Facility and operating loan incur interest based on the applicable Canadian prime rate or Banker's Acceptance rate plus between 0.50 and 3.50 percent depending on the type of borrowing and the Corporation's debt to EBITDA ratio. The Corporation is also subject to a standby fee of 0.3375 percent to 0.7875 percent depending on the Corporation's debt to EBITDA ratio. The next annual review date is May 31, 2019.

Previously, the Corporation had a $25.0 million revolving operating demand loan facility with a Canadian chartered bank.

As at December 31, 2018, $14.7 million (net of unamortized debt issue costs) was drawn on the Credit Facility and $6.1 million was drawn on the operating loan.

Long term debt as at December 31, 2018 and December 31, 2017 is as follows:

($000s)	As at Dec. 31, 2018	As at Dec. 31, 2017
Credit Facility	15,000	-
less: unamortized debt issue costs	(269)	-
LONG TERM DEBT	**14,731**	**-**
Operating Loan	6,109	-
CARRYING VALUE OF DEBT	**20,840**	**-**

Financing expense for the year ended December 31, 2018 and 2017 is comprised of the following:

($000s)	For the year ended Dec. 31, 2018	Dec. 31, 2017
Credit Facility interest and charges	56	-
Operating Loan interest and charges	60	-
Amortization of debt issue costs	5	-
FINANCING EXPENSES	**121**	**-**

For the year ended December 31, 2018, the effective interest rate on the credit facility was 4.03 percent. Key covenants of the new credit facilities include standard business operating covenants. As at December 31, 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 and performance warrants	696,666	709
Allocation of contributed surplus - exercise of options and performance warrants	-	380
Share issue costs, net of deferred tax ($568,000)	-	(1,534)
BALANCE AT DECEMBER 31, 2017	**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 DECEMBER 31, 2018	**137,269,270**	**216,208**

There were 70,000 shares issued during the year ended December 31, 2018 (year ended December 31, 2017 - 71,750,000).

SUPPLEMENTARY QUARTERLY INFORMATION

For the quarter ended ($000s)	Dec. 31, 2018	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Petroleum and natural gas sales	25,807	37,335	44,283	42,475
Funds flow from operations [(1)]	7,058	20,690	19,698	22,368
Adjusted funds flow from operations [(1)]	8,384	21,933	21,812	23,486
AVERAGE SALES VOLUMES				
Oil (bbl/d)	6,278	4,807	5,697	6,210
Natural gas liquids (bbl/d)	268	291	523	419
Natural gas (Mcf/d)	13,194	13,359	24,032	22,729
TOTAL PRODUCTION (BOE/d)	**8,745**	**7,325**	**10,225**	**10,417**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	58.81	69.46	67.88	62.91
Crude oil - Canadian light sweet ($CDN/bbl)	48.27	75.64	77.82	70.09
Natural gas - AECO-C spot ($CDN/mcf)	1.62	1.28	1.20	2.06
Exchange Rate - ($US/$CAD)	0.76	0.77	0.77	0.79
FIELD NETBACK ($/BOE)				
Revenue	32.08	55.41	47.59	45.31
Royalties	(2.60)	(4.77)	(2.86)	(2.38)
Operating expense	(15.33)	(15.50)	(15.87)	(15.89)
Transportation expense	(3.89)	(1.71)	(1.87)	(1.21)
FIELD NETBACK ($/BOE) [(1)]	**10.26**	**33.43**	**26.99**	**25.83**
General and administration	(2.57)	(2.91)	(3.71)	(1.68)
Other income	2.67	4.01	2.24	1.69
Interest income	0.03	0.08	0.04	0.01
Realized hedging	(0.88)	(2.06)	(1.32)	(0.80)
CASHFLOW NETBACK ($/BOE) [(1)]	**9.51**	**32.55**	**24.24**	**25.05**

(1) Non-GAAP measure, see page 19 for details.

For the quarter ended ($000s)	Dec. 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Petroleum and natural gas sales	38,464	18,133	10,017	6,136
Funds flow from (used for) operations (1)	19,022	4,654	4,728	3,080
Adjusted funds flow from operations (1)	19,896	6,521	4,948	3,080
AVERAGE SALES VOLUMES				
Oil (bbl/d)	5,700	3,283	1,874	1,114
Natural gas liquids (bbl/d)	412	226	7	6
Natural gas (Mcf/d)	23,792	12,553	1,037	744
TOTAL PRODUCTION (BOE/d)	**10,078**	**5,602**	**2,054**	**1,244**
AVERAGE BENCHMARK PRICES				
Crude oil - WTI ($US/bbl)	55.27	48.18	48.27	51.90
Crude oil - Canadian light sweet ($CDN/bbl)	65.68	57.15	59.72	64.74
Natural gas - AECO-C spot ($CDN/mcf)	1.72	1.61	2.79	2.69
Exchange Rate - ($US/$CAD)	0.79	0.80	0.74	0.76
FIELD NETBACK ($/BOE)				
Revenue	41.49	35.18	53.61	54.82
Royalties	(2.31)	(2.37)	(3.03)	(3.23)
Operating expense	(14.64)	(17.29)	(14.72)	(18.66)
Transportation expense	(1.30)	(1.60)	(3.09)	(3.07)
FIELD NETBACK ($/BOE) (1)	**23.24**	**13.92**	**32.77**	**29.86**
General and administration	(3.77)	(3.50)	(7.84)	(3.45)
Other income	1.97	1.43	-	-
Interest income	0.03	0.06	0.14	0.54
Realized hedging	-	0.64	1.06	-
CASHFLOW NETBACK ($/BOE) (1)	**21.47**	**12.55**	**26.13**	**26.95**

(1) Non-GAAP measure, see page 19 for details.

During the quarter ended December 31, 2018, the Company's daily production increased from the quarter ended September 30, 2018 due to the close of the Alliance Acquisition on October 31, 2018.

NET INCOME SUMMARY

	For the year ended December 31, 2018		For the year ended December 31, 2017	
($000s, except per boe amounts)	$	$/boe	$	$/boe
Petroleum and natural gas sales	149,900	44.80	72,750	41.78
Royalties	(10,196)	(3.05)	(4,294)	(2.47)
NET REVENUE	**139,704**	**41.75**	**68,456**	**39.31**
Other income	8,522	2.55	2,564	1.47
Gain (loss) on financial derivative contracts	(4,076)	(1.22)	582	0.33
Gain on acquisition	16,140	4.82	-	-
Loss on investment	(435)	(0.13)	-	-
Interest income	127	0.04	144	0.08
TOTAL REVENUE AND OTHER INCOME	**159,982**	**47.81**	**71,746**	**41.19**
Operating	52,440	15.67	27,321	15.69
Transportation	7,149	2.14	2,957	1.70
General and administration	9,035	2.70	7,200	4.13
Financing	121	0.04	-	-
Depletion, depreciation and amortization	42,674	12.75	21,044	12.09
Accretion	1,095	0.33	1,004	0.58
Share-based compensation	7,118	2.13	5,938	3.41
Exploration and evaluation - expiries	902	0.27	604	0.35
Transaction costs	390	0.12	2,016	1.16
INCOME FROM OPERATIONS BEFORE TAXES	**39,058**	**11.66**	**3,662**	**2.08**
Current income tax expense (NOTE 19)	-	-	-	-
Deferred income tax expense	8,501	2.54	2,595	1.49
NET INCOME AND COMPREHENSIVE INCOME	**30,557**	**9.12**	**1,067**	**0.59**

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

($000s)	2019	2020	2021	2022	Therafter	Total
Operating leases	543	597	164	-	-	1,304
Pipeline transportation	2,502	1,481	1,449	985	1,005	7,422
TOTAL ANNUAL COMMITMENTS	**3,045**	**2,078**	**1,613**	**985**	**1,005**	**8,726**

Deferred lease liability of $416,000 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 which came on stream in the first quarter of 2019.

RELATED PARTY DISCLOSURES

The Company received a total of $1.9 million of gas processing income and royalty income (year ended December 31, 2017 - nil) from PrivateCo. PrivateCo is a company with some common directors. Gas processing income and royalty income are based on standard third party agreements. As at December 31, 2018, $2.4 million is included in accounts receivable for final statement of adjustments, gas processing income, and royalty income (year ended December 31, 2017 - nil).

The Company incurred a total of $313,000 (year ended December 31, 2017 -$445,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at December 31, 2018, $36,000 in fees for these legal services are included in accounts payable (year ended December 31, 2017 - $57,000).

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at December 31, 2018, there were 137,269,270 common shares outstanding (December 31, 2017 - 137,199,270).

As at March 27, 2019, 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.

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, 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 year ended	
($000s)	Dec. 31, 2018	Dec. 31, 2017
Cash flow from continuing operations	74,773	14,572
Change in non-cash working capital from operating activities	(4,959)	16,912
FUNDS FLOW FROM OPERATIONS	**69,814**	**31,484**
Transaction costs	390	2,016
Decommissioning expenditures	5,411	945
ADJUSTED FUNDS FLOW FROM OPERATIONS	**75,615**	**34,445**

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 (net debt) 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. Net debt is defined as long term debt plus any net working capital deficiency excluding derivative contract asset/liability and current portion of decommissioning liability. 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.

CORPORATE INFORMATION

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Independent Businessman

Steven Smith[A]
Independent Businessman

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OFFICERS

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Silas Ehlers
Vice President, Exploration

Justin Crawford
Vice President, Operations

Clifford Brown
Vice President, Engineering

Sony Gill
Corporate Secretary

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

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