KARVE ENERGY INC

(formerly "Bruin Oil & Gas Inc.")

UNAUDITED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED

JUNE 30, 2016 AND JUNE 30, 2015

STATEMENT OF FINANCIAL POSITION

Unaudited (Canadian $000s)	As at June 30, 2016	As at Dec. 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	30,523	19,015
Trade and other receivables (NOTE 5)	335	2
Prepaids and deposits	367	76
	31,225	19,093
Assets held for sale (NOTES 8 AND 14)	-	2,811
Property, plant and equipment (NOTE 10)	20,626	38
Exploration and evaluation (NOTE 9)	8,854	200
TOTAL ASSETS	**60,705**	**22,142**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 6)	1,032	96
Liabilities associated with assets held for sale (NOTES 8 AND 14)	-	328
Decommissioning liability (NOTE 11)	6,574	-
	7,606	**424**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 12)	66,048	32,649
Contributed surplus (NOTE 12)	4,334	2,385
Accumulated deficit	(17,283)	(13,316)
	53,099	**21,718**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**60,705**	**22,142**

COMMITMENTS (NOTE 15)
SUBSEQUENT EVENTS (NOTE 19)

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

Approved on behalf of the Board of Directors:

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

Donald A. Engle
Chairman of the Board

James C. Lough
Director

STATEMENT OF NET AND COMPREHENSIVE LOSS

Unaudited (Canadian $000s, except per share amounts)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
REVENUE				
Petroleum and natural gas sales (NOTE 17)	290	-	290	-
Royalties	(14)	-	(14)	-
	276	-	276	-
EXPENSES				
Operating	249	-	249	-
General and administration (NOTE 18)	1,503	383	1,917	664
Depletion, depreciation and amortization (NOTE 10)	111	1	112	2
Accretion (NOTE 11)	20	-	20	-
Share-based compensation (NOTE 13)	1,712	562	1,949	1,123
Transaction costs	106	-	106	-
LOSS BEFORE OTHER ITEMS	(3,425)	(946)	(4,077)	(1,789)
FINANCE INCOME				
Interest income	46	52	92	107
LOSS FROM CONTINUING OPERATIONS	(3,379)	(894)	(3,985)	(1,682)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (NOTE 14)	-	(52)	18	(220)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(3,379)	(946)	(3,967)	(1,902)
LOSS PER SHARE ($) (NOTE 12)				
Basic and diluted - continuing operations (NOTE 12)	(0.11)	(0.03)	(0.14)	(0.06)
Basic and diluted - discontinued operations (NOTE 12)	-	(0.01)	-	(0.01)
TOTAL BASIC AND DILUTED (NOTE 12)	**(0.11)**	**(0.04)**	**(0.14)**	**(0.07)**

Refer to NOTE 14 for a summary of revenue, royalties, and expenses presented as income (loss) from discontinued operations in the statement of net loss and comprehensive loss.

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (Canadian $000s)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
SHARE CAPITAL				
Balance, beginning of period	32,649	32,649	32,649	32,649
Issuance of share capital, net of issue costs	33,399	-	33,399	-
BALANCE, END OF PERIOD	66,048	32,649	66,048	32,649
CONTRIBUTED SURPLUS				
Balance, beginning of period	2,622	1,124	2,385	427
Share-based compensation	1,712	697	1,949	1,394
BALANCE, END OF PERIOD	4,334	1,821	4,334	1,821
DEFICIT				
Balance, beginning of period	(13,904)	(5,701)	(13,316)	(4,745)
Net loss for the period	(3,379)	(946)	(3,967)	(1,902)
BALANCE, END OF PERIOD	(17,283)	(6,647)	(17,283)	(6,647)

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

STATEMENT OF CASH FLOWS

Unaudited (Canadian $000s)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss from continuing operations	(3,379)	(894)	(3,985)	(1,682)
ITEMS NOT AFFECTING CASH:				
Depletion, depreciation and amortization (NOTE 10)	111	1	112	2
Accretion expense	20	-	20	-
Share-based compensation (NOTE 13)	1,712	562	1,949	1,123
FUNDS FLOW USED FOR OPERATIONS	**(1,536)**	**(331)**	**(1,904)**	**(557)**
Change in non-cash working capital (NOTE 17)	537	14	566	(400)
CASH FLOW USED FOR CONTINUING OPERATIONS	(999)	(317)	(1,338)	(957)
Cash flow from (used for) discontinued operations (NOTE 17)	(93)	199	18	(3,033)
CASH FLOW USED FOR OPERATING ACTIVITIES	**(1,092)**	**(118)**	**(1,320)**	**(3,990)**
INVESTING ACTIVITIES				
Capital additions (NOTES 9 AND 10)	(94)	-	(94)	-
Acquisitions (NOTE 7)	(22,706)	-	(22,706)	-
Discontinued operations (NOTE 17)	-	374	2,486	196
Change in non-cash working capital (NOTE 17)	1,593	-	(257)	-
CASH FLOW FROM (USED FOR) INVESTING ACTIVITIES	**(21,207)**	**374**	**(20,571)**	**196**
FINANCING ACTIVITIES				
Issue of shares on exercise of put-call option, net of issue costs	6,615	-	6,615	-
Issue of shares, net of issue costs	26,784	-	26,784	-
CASH FLOW FROM FINANCING ACTIVITIES	**33,399**	**-**	**33,399**	**-**
Decrease in cash and cash equivalents	11,100	256	11,508	(3,794)
Cash and cash equivalents, beginning of period	19,423	19,043	19,015	23,093
CASH AND CASH EQUIVALENTS, END OF PERIOD	**30,523**	**19,299**	**30,523**	**19,299**

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

NOTES TO FINANCIAL STATEMENTS

For the three and six months ended June 30, 2016 and 2015. (Tabular amounts in thousands of Canadian dollars, unless otherwise stated. Amounts in text are in Canadian dollars unless otherwise stated).

1. REPORTING ENTITY

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

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

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

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

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

The financial statements were approved and authorized for issue by Karve's Board of Directors on September 15, 2016.

Basis of Measurement

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

Certain comparative amounts in the statement of net and comprehensive loss have been reclassified to conform with the current period's presentation. The comparative statement of net and comprehensive loss has been re-presented as if an operation discontinued during the current year had been discontinued from the beginning of the comparative year (NOTE 14).

Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in NOTE 3 of the December 31, 2015 annual financial statements. There have been no significant changes in the Company's critical accounting estimates and judgments applied during the interim period ended June 30, 2016 relative to the most recent annual financial statements as at December 31, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as outlined below, the same accounting policies and methods of computation have been followed as the audited financial statements at December 31, 2015. The financial statements for the three and six months ended June 30, 2016 should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2015.

Income tax expense for an interim period is based on an estimated annual effective income tax rate.

There are standards and amendments that have not been adopted as they apply to future periods that may result in future changes to the Company's existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on the Company's financial statements. A description of these standards and interpretations that will be adopted by the Company in future periods is disclosed in NOTE 2 of the audited annual financial statements for the year ended December 31, 2015.

4. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2016, the Company adopted the amendment to IFRS 11 "Joint Arrangements" to clarify the accounting treatment when an entity acquires interests in joint ventures and joint operations. The amendment requires these acquisitions to be accounted for as business combinations. The Company adopted this amendment prospectively. Adoption of this amended standard did not result in a significant impact to the Company's financial statements.

5. TRADE AND OTHER RECEIVABLES

($000s)	As at June 30, 2016	As at Dec. 31, 2015
Trade	84	109
Joint venture	-	23
Reclassified as assets held for sale	-	(132)
GST	251	2
TRADE AND OTHER RECEIVABLES	335	2

6. TRADE AND OTHER PAYABLES

($000s)	As at June 30, 2016	As at Dec. 31, 2015
Trade	250	160
Accrued	782	71
Reclassified as liabilities associated with assets held for sale	-	(135)
TRADE AND OTHER PAYABLES	1,032	96

7. ACQUISITIONS

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 Viking Acquisition has been accounted for as a business combination using the acquisition method, whereby the net assets acquired and the liabilities assumed are recorded at fair value. 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 license's deemed assets are greater than their deemed liabilities based on parameters determined by the AER.

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	8,568
Property, plant and equipment	20,692
Decommissioning liabilities	(6,554)
FAIR VALUE OF NET ASSETS ACQUIRED (1)	22,706
CONSIDERATION	
Cash	22,706
TOTAL PURCHASE PRICE	22,706

(1) The fair values allocated to the net assets acquired were estimated based on information available at the time of the preparation of these financial statements. The amount of cash consideration, after closing adjustments, was estimated based on an interim statement of adjustments. The actual amounts which will ultimately be recognized by the Company upon finalizing the accounting for the property acquisition may differ from these estimates.

During the six months ended June 30, 2016, the Company incurred $106,000 of transaction costs related to the Viking Acquisition which were recorded as "transaction costs" in the Company's statement of net and comprehensive loss.

The Company's statement of net 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 six months ended June 30, 2016 includes $290,000 of revenue and $27,000 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 $2.7 million and $456,000 respectively for the six months ended June 30, 2016. Operating income is defined as revenue, net of royalties and operating 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.

8. PROPERTY DISPOSITION

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske CGU for proceeds of $2.5 million after closing adjustments. These assets were classified as held for sale on the December 31, 2015 statement of financial position (NOTE 14).

The carrying value of assets and associated decommissioning liabilities disposed during the six months ended June 30, 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	-

9. EXPLORATION AND EVALUATION

Exploration and evaluation assets consist of the Company's undeveloped land, seismic, geological and geophysical costs and exploration projects that are pending the determination of technical feasibility. There were no indicators of impairment at June 30, 2016.

($000s)	
Balance at December 31, 2014	2,778
Additions	1,261
Transfers to petroleum and natural gas assets (NOTE 10)	(2,187)
Impairment of exploration and evaluation assets	(1,652)
BALANCE AT DECEMBER 31, 2015	**200**
Additions	86
Acquisitions (NOTE 7)	8,568
BALANCE AT JUNE 30, 2016	**8,854**

There was no capitalized stock based compensation included in exploration and evaluation additions during the six months ended June 30, 2016 (year ended December 31, 2015 - $391,000). During the year ended December 31, 2015, the Company impaired $1.7 million of undeveloped land, seismic, and geological and geophysical assets as the Company does not have intentions to develop the undeveloped lands to which these assets relate.

10. PROPERTY, PLANT AND EQUIPMENT

($000s)	As at June 30, 2016	As at Dec. 31, 2015
Petroleum and natural gas assets at cost	20,715	23
Corporate assets at cost	28	20
Property, plant and equipment at cost	20,743	43
Accumulated depletion and depreciation	(117)	(5)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	**20,626**	**38**

Petroleum and Natural Gas Assets

The following table reconciles movement of property, plant and equipment ("PP&E") during the period:

COST ($000s)	
Balance at December 31, 2014	10,480
Refund on drilling deposits	(249)
Transfer from exploration and evaluation assets (NOTE 9)	2,187
Change in decommissioning provision	(417)
Transfer to assets held for sale	(11,978)
BALANCE AT DECEMBER 31, 2015	**23**
Acquisitions	20,692
BALANCE AT JUNE 30, 2016	**20,715**

ACCUMULATED DEPLETION ($000s)	
Balance at December 31, 2014	4,653
Depletion, depreciation and amortization	1,121
Impairment loss	3,525
Transfer to assets held for sale	(9,299)
BALANCE AT DECEMBER 31, 2015	**-**
Depletion	110
BALANCE AT JUNE 30, 2016	**110**
NET CARRYING AMOUNT, JUNE 30, 2016	**20,605**

At June 30, 2016, future development and production costs of $40,000 (December 31, 2015 - $nil) are included in costs subject to depletion. There were no indicators of impairment at June 30, 2016. The Company has three cash generating units at June 30, 2016.

There were no direct general and administrative costs capitalized by the Company during the six months ended June 30, 2016 (year ended December 31, 2015 - $nil).

Corporate Assets

COST ($000s)	
Balance at December 31, 2014	15
Additions	5
BALANCE AT DECEMBER 31, 2015	**20**
Additions	8
BALANCE AT JUNE 30, 2016	**28**

ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2014	1
Depreciation and amortization	4
BALANCE AT DECEMBER 31, 2015	**5**
Depreciation and amortization	2
BALANCE AT JUNE 30, 2016	**7**
NET CARRYING AMOUNT, JUNE 30, 2016	**21**

11. DECOMMISSIONING LIABILITY

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

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $28.3 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 percent and an inflation rate of 1.5 percent. At June 30, 2016, a 1 percent decrease in the discount rate used would create approximately a $1.6 million increase in the decommissioning liability, and a 1 percent increase in the discount rate used would create approximately a $1.3 million decrease in the decommissioning liability. The following table shows changes in the decommissioning liability:

($000s)	June 30, 2016	Dec. 31, 2015
Balance, beginning of period	-	597
Decommissioning liabilities acquired through acquisitions (NOTE 7)	6,554	-
Accretion expense during period	20	13
Change in estimate	-	(417)
Reclassified as liabilities associated with assets held for sale	-	(193)
BALANCE, END OF PERIOD	**6,574**	**-**

12. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

b) Issued and Outstanding Common Shares

($000s except for share amounts)	Number	Amount ($)
Common Shares		
Balance at December 31, 2014	25,789,279	32,649
BALANCE AT DECEMBER 31, 2015	**25,789,279**	**32,649**
Issued for cash	32,433,824	34,000
Share issue costs	-	(601)
BALANCE AT JUNE 30, 2016	**58,223,103**	**66,048**

On June 15, 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.

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. The financings were comprised of:

(i) 7,058,824 common shares issued to certain members of the new 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.

Concurrent to the equity issuances (not including the pull-call option) that closed during the three months ended June 30, 2016, 28,058,824 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.

At June 30, 2016, the Company has determined that there is no certainty that the share issue cost tax pool deductions can be utilized in the future to offset income subject to tax and has therefore not recognized the deferred tax asset that would otherwise have been made available to the Company.

Subsequent to the quarter ended June 30, 2016, the Company completed private placement financings for a total of 6,239,500 common shares issued for gross proceeds of $6.2 million (NOTE 19).

c) Contributed Surplus

($000s)	June 30, 2016	Dec. 31, 2015
Balance, beginning of period	2,385	427
Share-based compensation - options (capitalized)	-	339
Share-based compensation - options (expense)	1,088	1,287
Share-based compensation - warrants (capitalized)	-	52
Share-based compensation - warrants (expense)	226	280
Share-based compensation - founder shares	635	-
BALANCE, END OF PERIOD	**4,334**	**2,385**

d) Issued and Outstanding Preferred Shares and Put-Call Options

($000s except for share amounts)	Preferred Shares Number	Preferred Shares Amount	Put-Call Options Number	Put-Call Options 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 JUNE 30, 2016	**-**	**-**	**-**	**-**

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 15, 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.

e) Per Share Amounts

	For the three months ended		For the six months ended	
($000s except per share amounts)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net loss from continuing operations	(3,379)	(894)	(3,985)	(1,682)
Net income (loss) from discontinued operations	-	(52)	18	(220)
Net loss for the period	(3,379)	(946)	(3,967)	(1,902)
Weighted average number of shares - basic and diluted	**29,491,929**	**25,789,279**	**27,640,604**	**25,789,279**
Basic and diluted net loss per share - continuing operations	**(0.11)**	**(0.03)**	**(0.14)**	**(0.06)**
Basic and diluted net income (loss) per share - discontinued operations	**-**	**(0.01)**	**-**	**(0.01)**
Basic and diluted net loss per share	**(0.11)**	**(0.04)**	**(0.14)**	**(0.07)**

At June 30, 2016, 3,722,310 stock options were excluded from the fully diluted calculation as they have not vested and are anti-dilutive.

13. SHARE-BASED COMPENSATION

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Share-based compensation - options	53	430	239	860
Share-based compensation - cancelled options	849	-	849	-
Share-based compensation - performance warrants	-	267	52	534
Share-based compensation - cancelled performance warrants	175	-	174	-
Share-based compensation - founder shares	635	-	635	-
Capitalized share-based compensation	-	(135)	-	(271)
TOTAL SHARE-BASED COMPENSATION	1,712	562	1,949	1,123

a) Stock Options

All 2,731,000 issued and outstanding stock options to the previous Bruin management team were cancelled on June 15, 2016, and a new stock option plan has been put in place for the new Karve management team.

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

During the six months ended June 30, 2016, 3,722,310 stock options were approved for issuance by the Board of Directors (year ended December 31, 2015 – 150,000).

Share based compensation during the six months ended June 30, 2016 was $1.1 million (six months ended June 30, 2015 – $860,000). Of this amount, all $1.1 million (six months ended June 30, 2015 – $695,000) was included in share-based compensation expense and $nil was included in exploration and evaluation assets as part of capitalized administration costs relating to development and production activities (six months ended June 30, 2015 – $165,000).

Of the total $1.1 million share-based compensation expense recognized during the six months ended June 30, 2016, $849,000 relates to accelerated vesting of the stock options issued to the previous Bruin management team that were cancelled on June 15, 2016.

The following table sets forth a reconciliation of the stock option plan activity through to June 30, 2016:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2014	2,581,000	1.38
Granted	150,000	1.60
BALANCE AT DECEMBER 31, 2015	**2,731,000**	**1.39**
Cancelled	(2,731,000)	1.39
Granted	3,722,310	0.85
BALANCE AT JUNE 30, 2016	**3,722,310**	**0.85**

There were no stock options exercised during the six months ended June 30, 2016 (year ended December 31, 2015 – nil) and no stock options were exercisable at June 30, 2016.

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at June 30, 2016 were as follows:

	Outstanding Options		Exercisable Options	
Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options	Number of options	Wtd. Avg. Exercise Price ($)
$1.00	4.96	3,722,310	-	-
	4.96	**3,722,310**	-	-

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

	For the six months ended	
	June 30, 2016	June 30, 2015
Risk-free Interest rate (%)	0.53%	1.00%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	66%	101%
Weighted average grant date share price	1.00	1.60
Forfeiture rate	-	-
Expected dividend yield (%)	-	-

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

The weighted average fair value of options granted during the six months ended June 30, 2016 is $0.58 per option (six months ended June 30, 2015 -$1.06).

Subsequent to the quarter ended June 30, 2016, 2,642,690 stock options were granted by the Board of Directors to certain officers, employees, directors and consultants of the Company (NOTE 19). Share-based compensation expense related to the stock options granted subsequent to June 30, 2016 will be recognized commencing Q3 2016.

b) Performance Warrants

All 1,951,000 issued and outstanding performance warrants to the previous Bruin management team were cancelled on June 15, 2016 and a new performance warrant plan has been put in place for the new Karve management team.

During the six months ended June 30, 2016 no performance warrants were approved for issuance by the Board of Directors (year ended December 31, 2015 – 100,000).

Share compensation during the six months ended June 30, 2016 was $226,000 (six months ended June 30, 2015 - $534,000). Of this amount, $226,000 (six months ended June 30, 2015– $428,000) was included in share-based compensation expense and $nil (six months ended June 30, 2015– $106,000) was included in exploration and evaluation assets as part of capitalized administration costs relating to development and production activities.

Of the total $226,000 share-based compensation expense recognized during the six months ended June 30, 2016, $174,000 relates to accelerated vesting of the performance warrants issued to the previous Bruin management team that were cancelled on June 15, 2016.

The following table sets forth a reconciliation of performance warrant activity through to June 30, 2016:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2014	1,851,000	2.16
Granted	100,000	3.10
BALANCE AT DECEMBER 31, 2015	**1,951,000**	**2.21**
Cancelled	(1,951,000)	2.21
BALANCE AT JUNE 30, 2016	-	-

There were no performance warrants exercised during the six months ended June 30, 2016 (year ended December 31, 2015 – nil) and no performance warrants were outstanding at June 30, 2016.

Subsequent to the quarter ended June 30, 2016, 16,125,000 performance warrants were granted by the Board of Directors to certain officers, employees, directors and consultants of the Company (NOTE 19). Share-based compensation expense related to the performance warrants granted subsequent to June 30, 2016 will be recognized commencing Q3 2016.

c) Shares Issued at Discount to Market

On June 15, 2016, 7,058,824 common shares were issued to certain members of the new Karve management team at $0.85 per share which were issued at a discount to the market price of the shares issued later in June 2016. This offering was contemplated as part of the reorganization of the Company and the implementation of a new management team. A portion of the implied value represents a share-based compensation expense to the Company. For the six months ended June 30, 2016, $635,000 was recorded as founder shares stock-based compensation expense.

14. DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske CGU for proceeds of $2.5 million after closing adjustments (NOTE 8). The comparative statement of net loss and comprehensive loss has been re-presented to show the discontinued operation separately from continuing operations.

	For the three months ended		For the six months ended	
($000s)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Petroleum and natural gas sales	-	652	31	1,124
Royalties	-	(47)	(2)	(91)
	-	605	29	1,033
Operating expense	-	213	11	413
Accretion expense	-	4	-	7
Depletion, depreciation and amortization	-	440	-	833
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	**-**	**(52)**	**18**	**(220)**

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

($000s)	As at June 30, 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 statement of financial position are comprised of the following:

($000s)	As at June 30, 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 percent and an inflation rate of 1.5 percent. 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 were associated with assets held for sale at December 31, 2015.

15. COMMITMENTS

Subsequent to the quarter ended June 30, 2016, the Company entered into an office lease for five years with an option to both the Company and the lessor to terminate the lease at any time after July 2019. Future minimum lease payments are as follows:

	2016	2017	2018	2019	2020	Therafter	Total
Operating lease – office buildings	47,250	142,650	295,538	494,819	596,984	164,145	1,741,386
Total annual commitments	**47,250**	**142,650**	**295,538**	**494,819**	**596,984**	**164,145**	**1,741,386**

The sublandlord 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 the Company should the sublandlord terminate the lease after this date.

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

16. FINANCIAL INSTRUMENTS

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

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

Fair Value of Financial Instruments

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

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

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

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

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

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

The following table summarizes Karve's financial instruments at June 30, 2016:

($000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents	-	30,523	-	30,523
Trade and other receivables	-	335	-	335
	-	30,858	-	30,858
Liabilities				
Trade and other payables	-	-	1,032	1,032
	-	-	1,032	1,032

The following table summarizes Karve's financial instruments at December 31, 2015:

($000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents	-	19,015	-	19,015
Trade and other receivables (1)	-	134	-	134
	-	19,149	-	19,149
Liabilities				
Trade and other payables (1)	-	-	231	231
	-	-	231	231

(1) For the year ended December 31, 2015, $132,000 of accounts receivable was reclassified as assets held for sale and $135,000 of accounts payable was reclassified as liabilities associated with assets held for sale.

Liquidity Risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures and assessing the amount of equity or debt financing available. At June 30, 2016, the Company considers itself to be well-capitalized, with working capital in excess of current commitments. The Company's financial liabilities include trade and other payables of $1.0 million (year ended December 31, 2015 - $231,000). All financial liabilities have contractual maturities of less than one year. Subsequent to the quarter ended June 30, 2016, the Company completed private placement financings for a total of 6,239,500 common shares issued for gross proceeds of $6.2 million (NOTE 19).

17. CAPITAL DISCLOSURES

a) Capital Base

The Company manages its capital in a manner consistent with the risk characteristics of the assets it holds. All financing, including equity and debt, are analyzed by management and approved by the Board of Directors.

The Company's objectives when managing capital are:

(a) to safeguard the Company's ability to continue as a going concern and provide returns for shareholders; and

(b) to facilitate the acquisition or development of oil and gas projects consistent with the growth strategy of the Company.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential acquisitions, in addition to preparing short-term and long-term cash flow analysis to ensure an adequate amount of liquidity and monthly review of financial results.

The Company funds its share of expenditures of all commitments from existing cash and cash equivalents received primarily from issuances of shareholders' equity. The Company is not subject to any externally imposed capital requirements.

The Board of Directors regularly reviews the Company's cash flow analysis and assesses the timing and need for additional equity financing. The Company's results will impact its access the capital necessary to meet these expenditure commitments. There can be no assurance that equity financing will be available or sufficient to meet those commitments, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company.

The Company considers the following items capital:

(a) cash, net of accounts payable

(b) shareholders' equity

The following table represents the net capital of the Company:

($000s)	As at June 30, 2016	As at Dec. 31, 2015
Cash, net of accounts payable	29,491	18,784
Shareholders' equity	53,099	21,718
TOTAL CAPITAL	**82,590**	**40,502**

The Company's share capital is not subject to external restrictions and the Company has no bank debt.

b) Supplemental Information

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
CHANGES IN NON-CASH WORKING CAPITAL:				
Trade and other receivables (NOTE 5)	(329)	(99)	(201)	1,486
Prepaids and other assets	1,509	6	(291)	18
Trade and other payables (NOTE 6)	857	254	801	(4,945)
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**2,037**	**161**	**309**	**(3,441)**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:				
Operating activities	537	14	566	(400)
Investing activities	1,593	-	(257)	-
Financing activities	-	-	-	-
Discontinued operations	(93)	147	-	(3,041)
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**2,037**	**161**	**309**	**(3,441)**

The following tables present the composition of cash flows from (used for) discontinued operations:

Discontinued Operating Activities

	For the three months ended		For the six months ended	
CASH FLOW FROM (USED FOR) DISCONTINUED OPERATIONS	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net income (loss) from discontinued operations	-	(52)	18	(220)
Accretion expense	-	4	-	7
Depletion, depreciation and amortization	-	440	-	833
Change in non-cash working capital	(93)	(193)	-	(3,653)
CASH FLOW FROM (USED FOR) DISCONTINUED OPERATIONS	**(93)**	**199**	**18**	**(3,033)**

Discontinued Investing Activities

	For the three months ended		For the six months ended	
CASH FLOW FROM (USED FOR) DISCONTINUED INVESTING ACTIVITIES	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Purchases of property, plant and equipment	-	34	-	(416)
Disposal of property, plant and equipment	-	-	2,486	-
Change in non-cash working capital	-	340	-	612
CASH FLOW FROM (USED FOR) DISCONTINUED INVESTING ACTIVITIES	**-**	**374**	**2,486**	**196**

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

($000s)	For the three months ended June 30, 2016	June 30, 2015	For the six months ended June 30, 2016	June 30, 2015
Crude oil	272	-	272	-
Natural gas liquids	3	-	3	-
Natural gas	15	-	15	-
TOTAL PETROLEUM AND NATURAL GAS SALES (1)	**290**	**-**	**290**	**-**

(1) Sales for the three and six months ended June 30, 2015 are included in gain (loss) from discontinued operations in the statement of net and comprehensive loss.

18. RELATED PARTY DISCLOSURES

a) Key Management Personnel

Key management is defined as the Board of Directors and Officers of the Company. The table below summarizes the fair value of compensation and other fees paid to key management including the previous Bruin management team:

($000s)	For the three months ended June 30, 2016	June 30, 2015	For the six months ended June 30, 2016	June 30, 2015
Salaries and benefits	146	116	269	239
Consulting fees	32	20	62	50
Termination benefits	997	-	997	-
Share-based compensation benefit	1,620	615	1,846	1,208
TOTAL KEY MANAGEMENT COMPENSATION	**2,795**	**751**	**3,174**	**1,497**

During the six months ended June 30, 2016, termination benefits of $997,000 were paid on the termination of all executive officers of the previous Bruin management team without cause.

b) Other Related Party Transactions

A previous Director of the Company, until June 15, 2016, was a Director of a company which received office rental payments of $80,000 (June 30, 2015 - $56,000) from Karve. The Company also incurred a total of $142,000 (June 30, 2015 -$81,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at June 30, 2016, $67,000 related party amounts are included in accounts payable (December 31, 2015 - $nil).

Subsequent to the quarter ended June 30, 2016, the Company signed a purchase and sale agreement with a Company owned by certain members of the new Karve management team, wherein the Company agreed to purchase $55,000 of office equipment and software licenses, reimburse the related Company for incurred third party consulting fees of $42,000 and issue 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.

19. SUBSEQUENT EVENTS

a) Acquisition of Oil and Gas Assets

On August 10, 2016, the Company acquired certain oil and gas assets in the Consort area of Alberta for total consideration of $650,000, subject to customary closing adjustments. The consideration was comprised of $500,000 cash and 150,000 common shares at $1.00 per share. The effective date of the acquisition was July 1, 2016.

Subsequent to the quarter ended June 30, 2016, the Company closed two acquisitions to acquire certain joint venture partner's non-operated working interest in the Consort area of Alberta for total aggregate cash consideration of $135,000, subject to customary closing adjustments. The effective dates of the acquisitions were July 1, 2016 and August 1, 2016.

b) Financing

On July 7, 2016, the Company completed a private placement financing for a total of 5,479,500 common shares issued for gross proceeds of $5.5 million.

On August 16, 2016, the Company completed a private placement financing for a total of 760,000 common shares issued for gross proceeds of $760,000.

c) Stock Option and Performance Warrant Grants

Subsequent to the quarter ended June 30, 2016, the Board of Directors granted 2,642,690 stock options with an exercise price of $1.00 per option. The stock options have a life of 5 years and time vest one third on each of the first three anniversary dates of the grant.

Subsequent to the quarter ended June 30, 2016, the Board of Directors granted 16,125,000 performance warrants. The performance warrants are equally divided into five tranches with exercise prices of $1.50, $1.70, $1.90, $2.10 and $2.30. The performance warrants have a life of 5 years and time vest one fifth on the grant date and one fifth on each of the first four anniversary dates of the grant. The right to exercise the performance warrants is subject to a performance event taking place which includes the occurrence of any of the following (i) the Company raising a minimum of $25 million through a private placement, excluding the securities issued as part of the recapitalization that occurred in June 2016 (ii) the occurrence of an initial public offering on a recognized Canadian or U.S. stock exchange, or (iii) a change of control.

Share-based compensation expense related to the stock options and performance warrants granted subsequent to June 30, 2016 will be recognized commencing Q3 2016.

d) Related Party Acquisition

Subsequent to the quarter ended June 30, 2016, the Company signed a purchase and sale agreement with a Company owned by certain members of the new Karve management team, wherein the Company agreed to purchase $55,000 of office equipment and software licenses, reimburse the related Company for incurred third party consulting fees of $42,000 and issue 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.

e) Licensee Liability Rating Deposit

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.