



(formerly "Bruin Oil & Gas Inc.")

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS AND SIX MONTHS ENDED
JUNE 30, 2016 AND JUNE 30, 2015**



September 15, 2016

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's recent progress.

Our team has been very active as we continue to optimize production and manage operating expenses on our acquisition of Viking assets in Consort and Hamilton Lake, Alberta. We recently performed five (5.0 net) recompletions on vertical wells and are currently evaluating results. Our horizontal drilling locations have been identified and we are still on track to initiate our drilling program later this year.

Due to the large number of vertical wells in the acquisition, our Licensee Liability Rating (LLR) deposit with the Alberta Energy Regulator (AER) was initially \$13.7 million. Our team has been working hard to reduce the LLR and I'm happy to report that the LLR has been reduced by \$4.7 million to \$9.0 million. We expect further, more conservative reductions going forward.

Since the end of June 30, 2016 we closed the President's list financing issuing 6.2 million shares at \$1.00 per share for proceeds of \$6.2 million. We are currently in a positive working capital position of \$33.4 million after accounting for capital expenditures on three acquisitions and five recompletions in the field. With the significant positive working capital position that Karve is in we will continue to both consolidate our core area as well as look for new opportunities.

You will find enclosed the Karve Energy Inc. unaudited financial statements and MD&A for the three months ended June 30, 2016. These financial statements have been prepared in accordance with International Financial Reporting Standards. If you would like to be added to our email distribution list to receive financial statements and MD&A by email, please send your request to info@karveenergy.com.

We look forward to reporting our progress to you and thank all of our shareholders for their ongoing support.

On behalf of the Board of Directors,

Signed "Bob Chaisson"

Bob Chaisson
Chief Executive Officer
Karve Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") is a review of Karve Energy Inc.'s ("Karve" or the "Company") results and management's analysis of its financial performance for the period from January 1, 2016 to June 30, 2016 ("six months ended June 30, 2016"). It is dated September 15, 2016 and should be read in conjunction with the unaudited interim financial statements for the three and six months ended June 30, 2016 and the audited financial statements for the year ended December 31, 2015. 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. All references to "Karve" or the "Company" refer to Karve Energy Inc.

DESCRIPTION OF THE COMPANY

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

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

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

OPERATIONAL AND FINANCIAL SUMMARY

The Company had producing oil and gas properties which were located in the Fiske area of Saskatchewan for the 15 day period from January 1, 2016 to January 15, 2016, when the Fiske property disposition closed (the "Fiske Property Disposition"). Subsequent to the Fiske Property Disposition, there was no oil and gas production until June 15, 2016 when the Company closed an acquisition of oil and gas properties located in the Alberta Viking formation (the "Viking Acquisition"). Sales volumes and operating results for the three months ended June 30, 2016 include the 15 day production period from June 15, 2016 to June 30, 2016. Sales volumes and operating results for the six months ended June 30, 2016 include the 15 day production period from January 1, 2016 to January 15, 2016 and the 15 day production period from June 15, 2016 to June 30, 2016.

FINANCIAL (Canadian \$000, except per share and per boe amounts)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Net loss from continuing operations	(3,379)	(894)	(3,985)	(1,682)
Per basic and diluted shares	(0.11)	(0.03)	(0.14)	(0.06)
Net income (loss) from discontinued operations	-	(52)	18	(220)
Per basic and diluted shares	-	(0.01)	-	(0.01)
Funds flow used for operations ⁽¹⁾	(1,536)	(331)	(1,904)	(557)
Per basic and diluted shares ⁽¹⁾	(0.05)	(0.01)	(0.07)	(0.02)
Cash flow used for continuing operations	(999)	(317)	(1,338)	(957)
Per basic and diluted shares	(0.03)	(0.01)	(0.05)	(0.04)
Capital expenditures (excluding acquisitions) ⁽²⁾	94	(34)	94	416
Net acquisitions	22,706	-	20,220	-
Total capital expenditures (including acquisitions)	22,800	(34)	20,314	416
Working capital	30,193	19,956	30,193	19,956
Total assets	60,705	29,335	60,705	29,335
Shares outstanding, weighted average (000s)	29,492	25,789	27,641	25,789
OPERATIONAL				
Average sales prices				
Oil (\$/bbl)	53.10	62.48	50.15	55.09
NGLs (\$/bbl)	56.83	-	56.83	-
Natural gas (\$/mcf)	1.43	-	1.43	-
Boe basis (\$/boe)	42.09	62.48	41.07	55.09



(\$000s)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Netback (\$/boe)				
Sales price	42.09	62.48	41.07	55.09
Royalties	(2.03)	(4.50)	(2.05)	(4.46)
Operating expense	(36.14)	(20.41)	(33.27)	(20.24)
Field netback ⁽¹⁾	3.92	37.57	5.75	30.39

(1) Non-GAAP measure, see page 13 for details.

(2) For the three and six month period ended June 30, 2015, capital expenditures relate to discontinued operations.

The following table outlines sales volumes from the Viking property for the 15 day production period from June 15, 2016 to June 30, 2016:

	For the period from June 15, 2016 to June 30, 2016
Sales volumes	
Oil (bbl/d)	341
NGLs (bbl/d)	4
Natural gas (mcf/d)	687
Total (boe/d)	459

ACQUISITION OF OIL AND GAS ASSETS

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 this MD&A. 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.

PROPERTY DISPOSITION AND DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske 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.

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	-

As a result of the property disposition, during the six months ended June 30, 2016, the Company only had oil and gas production operations in the Fiske CGU for the 15 day period January 1, 2016 to January 15, 2016. The comparative statement of net and comprehensive loss has been re-presented to show the discontinued operation separately from continuing operations.

(\$000s)	For the three months ended		For the six months ended	
	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	As at
	June 30, 2016	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	As at
	June 30, 2016	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 are associated with assets held for sale at December 31, 2015.

SALES VOLUMES

Sales volumes averaged 76 boe/d during the three months ended June 30, 2016 compared to 115 boe/d for the three months ended June 30, 2015. The decrease in sales volumes is due to the three months ended June 30, 2016 including only 15 days of production from the Viking Acquisition which closed on June 15, 2016. Prior to June 15, 2016, the Company had no producing oil and gas properties during the three months ended June 30, 2016. All production during the three months ended June 30, 2016 is

from the Viking property acquired on June 15, 2016, which produced 459 boe/d during the 15 day production period from June 15, 2016 to June 30, 2016.

SALES PRICES AND REVENUE

For the 15 day production period during the three months ended June 30, 2016, the Company generated revenue of \$290,000 (three months ended June 30, 2015 - \$652,000) on average sales volumes of 76 boe/d (three months ended June 30, 2015 - 115 boe/d). All sales were from the Viking property which was acquired on June 15, 2016. The average sales price per boe for the three months ended June 30, 2016 was \$42.09 compared to \$62.48 for the three months ended June 30, 2015. The decrease relates to lower benchmark commodity pricing for crude oil during the three months ended June 30, 2016. The Company sells its production at current market prices discounted for Alberta delivery points and adjusted for quality based on the density of the Company's sweet, light crude oil which averages 32° API. The Canadian light sweet benchmark decreased from \$68.88 during the three months ended June 30, 2015 to \$55.01 during the three months ended June 30, 2016 which represents a decrease of 20% in benchmark commodity pricing. The Company has not hedged any of its production as at September 15, 2016, the date of this MD&A.

KARVE AVERAGE REALIZED PRICE	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenue (\$000s) ⁽¹⁾	290	652	321	1,124
Oil (\$/bbl)	53.10	62.48	50.15	55.09
NGLs (\$/bbl)	56.83	-	56.83	-
Natural gas (\$/mcf)	1.43	-	1.43	-
Karve realized price (\$/boe)	42.09	62.48	41.07	55.09
AVERAGE BENCHMARK PRICES				
Crude oil - Canadian light sweet (\$CDN/bbl)	55.01	68.88	48.11	61.08
Natural gas - AECO-C spot (\$CDN/mcf)	1.42	2.67	1.63	2.71

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

ROYALTIES

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended June 30, 2016 was \$14,000 (\$2.03 per boe) compared to \$47,000 (\$4.50 per boe) for the three months ended June 30, 2015. For the three months ended June 30, 2016, the Company's royalty rate was 4.8% of revenues (three months ended June 30, 2015 - 7.2%), a decrease of 2.4% due to different royalty rates between the Alberta based assets at Consort and Hamilton Lake and the Saskatchewan based assets at Fiske as well as lower realized commodity prices.

(\$000s, except per boe amounts)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Royalty expense ⁽¹⁾	14	47	16	91
Royalty expense as a % of revenue	4.8%	7.2%	5.0%	8.1%
Per boe (\$)	2.03	4.50	2.05	4.46

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

OPERATING EXPENSE

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process and in field trucking of production. Operating expenses were \$249,000 (\$36.14 per boe) during the three months ended June 30, 2016 and \$213,000 (\$20.41 per boe) for the three months ended June 30, 2015. Operating expenses per boe increased during the three months ended June 30, 2016 due to the Viking Acquisition which closed on June 15, 2016. This acquisition resulted in additional one time expenses incurred on the Viking property being transitioned to operatorship by Karve. In the future, as Karve has oil and gas production for the full fiscal period and new horizontal wells come on production, the operating expense per boe is expected to decrease due to the fixed nature of the majority of the expenses being allocated over higher production volumes.

(\$000s, except per boe amounts)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Operating expense ⁽¹⁾	249	213	260	413
Per boe (\$)	36.14	20.41	33.27	20.24

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

FIELD NETBACK

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

(\$000s, except per boe amounts)	For the three months ended June 30, 2016		For the three months ended June 30, 2015	
	\$	\$/boe	\$	\$/boe
Revenue	290	42.09	652	62.48
Royalties	(14)	(2.03)	(47)	(4.50)
Operating expense	(249)	(36.14)	(213)	(20.41)
FIELD NETBACK (\$) ⁽¹⁾	27	3.92	392	37.57

(1) Non-GAAP measure, see page 13 for details.

(\$000s, except per boe amounts)	For the six months ended June 30, 2016		For the six months ended June 30, 2015	
	\$	\$/boe	\$	\$/boe
Revenue	321	41.07	1,124	55.09
Royalties	(16)	(2.05)	(91)	(4.46)
Operating expense	(260)	(33.27)	(413)	(20.24)
FIELD NETBACK (\$) ⁽¹⁾	45	5.75	620	30.39

(1) Non-GAAP measure, see page 13 for details.

GENERAL AND ADMINISTRATION EXPENSE (“G&A”)

The following are the main components of G&A for the three and six months ended June 30, 2016 and June 30, 2015:

(\$000s, except per boe amounts)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Staff and consulting costs	1,360	232	1,564	443
Professional fees	74	99	156	136
Office and rent costs	56	53	150	108
Other	13	23	47	44
General and administration expense (Gross)	1,503	407	1,917	731
Capitalized G&A overhead recovery	-	(24)	-	(67)
General and administration expense (Net)	1,503	383	1,917	664
Per boe (\$)	218.15	36.70	245.27	32.55

General and administrative expenses (net) for the three months ended June 30, 2016 were \$1.5 million (\$218.15 per boe) and \$383,000 (\$36.70 per boe) for the three months ended June 30, 2015. The increase in G&A relates to one time restructuring costs on the transition of the Company to the new Karve management team, and termination benefits of \$997,000 paid on the termination of all executive officers of the previous Bruin management team without cause.

FINANCIAL INCOME

(\$000s, except per boe amounts)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Financial income	46	52	92	107
Per boe (\$)	6.68	4.98	11.77	5.24

Financial income relates to interest income earned on bank deposits. Interest income decreased to \$46,000 (\$6.68 per boe) for the three months ended June 30, 2016 compared to \$52,000 (\$4.98 per boe) due to lower cash balances held on deposit during the three months ended June 30, 2016 compared to June 30, 2015. The Company has no bank debt and does not pay interest expense.

SHARE-BASED COMPENSATION EXPENSE (“SBC”)

(\$000s, except per boe amounts)	For the three months ended		For the six months ended	
	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)
Share based compensation expense	1,712	562	1,949	1,123
Per boe (\$)	248.48	53.86	249.37	55.04

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

All issued and outstanding stock options and performance warrants to the previous Bruin management team were cancelled on June 15, 2016, and a new stock option and performance warrant plan has been put in place for the new Karve management team. During the six months ended June 30, 2016, 3,772,310 stock options were approved for issuance by the Board of Directors at an exercise price of \$0.85 per share.

SBC expense for the three months ended June 30, 2016, was \$1.7 million (three months ended June 30, 2015 - \$562,000) using the graded vesting method. For the three months ended June 30, 2016, \$1.0 million of SBC expense is due to accelerated vesting of the stock options issued to the previous Bruin management team that were cancelled on June 15, 2016. During the three months ended June 30, 2016, \$635,000 founder shares SBC expense was recognized on shares issued at a discount to market price relating to 7,058,824 common shares 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 share-based compensation expense to the Company.

As at June 30, 2016, 3,722,310 stock options and no performance warrants were outstanding. The weighted average exercise price and fair value of the stock options outstanding was \$0.85 per option and \$0.58 per option respectively. There were no stock options or performance warrants exercised during the six months ended June 30, 2016 and no stock options were exercisable at June 30, 2016.

Subsequent to the quarter ended June 30, 2016, 2,642,690 stock options and 16,125,000 performance warrants were granted by the Board of Directors to certain officers, employees, directors and consultants of the Company. Share-based compensation expense related to the stock options and performance warrants granted subsequent to June 30, 2016 will be recognized commencing Q3 2016. Refer to the “Subsequent Events” section for additional information.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the three months ended June 30, 2016 depletion expense was \$110,000 (June 30, 2015 - \$440,000) due to lower production as a result of only 15 days of oil and gas production in the second quarter of 2016.

All production assets in the Fiske area of Saskatchewan were classified as “assets held for sale” until January 15, 2016 when the disposition closed. Assets held for sale are not subject to depletion, therefore no depletion expense was recognized related to these assets during the six months ended June 30, 2016.

(\$000s, except per boe amounts)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Depletion	110	440	110	833
Depreciation and amortization	1	1	2	2
Total DD&A (\$)	111	441	112	835
Per boe (\$)	16.10	42.26	14.32	40.93

CAPITAL EXPENDITURES & ACQUISITIONS

Additions to property, plant and equipment for the three and six months ended June 30, 2016 and June 30, 2015 consisted of the following:

(\$000s)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Acquisitions	22,706	-	22,706	-
Drilling and completions	-	(34)	-	283
Facilities and well equipment	-	-	-	51
Geological and geophysical	11	-	11	37
Land acquisitions	75	-	75	40
Office equipment	8	-	8	5
TOTAL CAPITAL EXPENDITURES AND ACQUISITIONS (\$000s)	22,800	(34)	22,800	416

During the three months ended June 30, 2016, the Company closed the Alberta Viking acquisition for total consideration of \$22.7 million, subject to customer closing adjustments.

DECOMMISSIONING LIABILITY

At June 30, 2016, the Company recorded a decommissioning liability of \$6.6 million for the future abandonment and reclamation of Karve's properties (December 31, 2015 - \$193,000). The estimated decommissioning liability includes assumptions in respect of actual costs to abandon wells and reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the discounted total future liability. The Company estimates that its total undiscounted amount of cash flow required to settle its decommissioning liability is approximately \$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.

SHARE CAPITAL

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

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

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. Refer to the "Subsequent Events" section for additional information.

PREFERRED SHARES AND PUT-CALL OPTIONS

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

INCOME TAXES

At June 30, 2016, the Company determined that there is no certainty that the non-capital losses, resource tax pools, capital cost allowance and share issue costs can be utilized in the future to offset income subject to tax and has therefore not recognized the associated deferred tax asset that would otherwise have been available to the Company. At June 30, 2016, the Company has estimated tax pools of \$51.6 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Subsequent to year-end, 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	Thereafter	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.

RELATED PARTY DISCLOSURES

The Company had related party transactions that were entered into the normal course of business for the six months ended June 30, 2016.

A previous Director of the Company, until June 15, 2016, was a Director of a company which received office rental payments of \$80,000 (six months ended June 30, 2015 - \$56,000) from Karve. The Company also incurred a total of \$142,000 (six months ended 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.

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.

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at June 30, 2016, there were 58,223,103 common shares outstanding (December 31, 2015 – 25,789,279).

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.

All stock options and performance warrants to the previous Bruin management were cancelled on June 15, 2016, and a new stock option and performance warrant plan has been put in place by the Board of Directors for the new Karve management team. As at September 15, 2016, the date of this MD&A, there were 64,752,604 common shares, 6,365,000 stock options and 16,125,000 performance warrants outstanding.

LIQUIDITY

The Company relies on operating cash flows and equity issuances to fund its capital requirements and provide liquidity. From time to time, the Company expects to access capital markets to meet its capital programs. Future liquidity depends primarily on cash flow generated from operations and the ability to access equity markets. 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. The Company has no bank debt at June 30, 2016 (December 31, 2015 - \$nil).

SUBSEQUENT EVENTS

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.

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.



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.

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.

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.

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 statement of financial position as at June 30, 2016.

OUTLOOK

The quarter ended June 30, 2016 was significant for the future of the Company. The new Karve management team organized (i) a recapitalization of the Company through a series of private placements; (ii) the appointment of a new Board of Directors; and (iii) the acquisition of an oil-weighted asset base in the Alberta Viking formation.

The Company acquired assets in the Alberta Viking formation and will focus on optimizing and developing this property through a waterflood and horizontal drilling program which is expected to commence in the third quarter of 2016.

The Company is also focused on the evaluation and identification of further light crude oil opportunities to expand the Company's land and production base.

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 operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with IFRS, as follows:



(\$000s)	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Cash flow used for continuing operations	(999)	(317)	(1,338)	(957)
Change in non-cash working capital	(537)	(14)	(566)	400
FUNDS FLOW USED FOR OPERATIONS	(1,536)	(331)	(1,904)	(557)

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The MD&A contains other terms such as field netback and net available working capital which is not a recognized measure under IFRS. Management believes this measure is useful supplemental information. Field netback is the amount of revenues received on a per unit of production basis after the royalties and operating costs are deducted. Net available working capital represents current assets less current liabilities and is used to assess efficiency, liquidity and the general financial strength of the Company. 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

HEAD OFFICE	DIRECTORS
Karve Energy Inc. 1700, 205 5th Avenue SW Calgary, Alberta T2P 2V7 (587) 393-8301	Donald Engle ^{A,C} Chairman, Independent Businessman
BANKER	Bob Chaisson Karve Energy Inc.
ATB Financial 600, 444 7 AVE SW Calgary, Alberta T2P 0X8	James C. (Pep) Lough ^{A,C} Independent Businessman
RESERVE ENGINEERS	Howard Crone ^{A,R} Independent Businessman
Sproule Associates Limited 900, 140 4 AVE SW Calgary, Alberta T2P 3N3	Steven Smith ^A Independent Businessman
LEGAL COUNSEL	Dave Pearce ^{R,C} Azimuth Capital Management
Burstall Winger Zammit LLP 1600, 333 7 AVE SW Calgary, Alberta T2P 2Z1	Daryl Gilbert ^R JOG Capital Corp.
AUDITORS	Mitch Putnam ^{R,C} 32 Degrees Capital
PricewaterhouseCoopers LLP 3100, 111 5 AVE SW Calgary, Alberta T2P 5L3	OFFICERS
TRANSFER AGENT	Bob Chaisson Chief Executive Officer
Computershare Trust Company of Canada 600, 530 8 AVE SW Calgary, Alberta T2P 3S8	Derek Kreba President
	Ken McNeill Executive Vice President, Corporate Development
	Shane Helwer Vice President, Finance & Chief Financial Officer
	Silas Ethers Vice President, Exploration
	Justin Crawford Vice President, Operations
	Clifford Brown Vice President, Engineering
	Robert Verbuck Corporate Secretary

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

FOR MORE INFORMATION, PLEASE CONTACT:	
Bob Chaisson Chief Executive Officer 587-393-8308 bob.chaisson@karveenergy.com	Shane Helwer Vice President, Finance & Chief Financial Officer 587-393-8302 shane.helwer@karveenergy.com