



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



November 23, 2016

LETTER TO OUR SHAREHOLDERS

Dear Shareholder:

We are pleased to update you on Karve's progress since our annual general meeting on September 15, 2016.

In the third quarter of 2016 we completed the last of a series of related equity financings raising an aggregate of over \$40 million to fund the Viking acquisition, future capital programs as well as future acquisitions. Our team is now fully assembled with almost everyone having previously worked together in successful predecessor companies in the Viking fairway. There are currently 15 engaged individuals in the Calgary office as well 11 individuals busy in the field.

Karve's activities in the third quarter focused on low risk, capital efficient projects, while continuing to improve the infrastructure throughout the asset base. During the quarter, we performed several low risk re-completions and re-activation operations adding 40 BOE/d of mostly oil production resulting in current production of 511 BOE/d. We also finalized our fourth quarter drilling program. Similar to our previous companies, initially operating costs are inflated as we incur a number of one-time costs related to upgrades and projects that will improve the overall infrastructure as well as set the stage for significant operating cost reductions in the future.

Due to both low commodity prices as well as allowing for the completion of consolidation of working interests throughout the property, we elected to slightly delay our drilling program from late Q3 to mid-Q4. Drilling operations commenced on November 2nd and we have already drilled five horizontal wells and are in the process of drilling another five horizontal wells for a total of ten horizontal wells in the fourth quarter. Of the five drilled horizontal wells, three have been completed (fracture stimulated) and are in various stages of awaiting surface equipment and tie-in. We anticipate all ten horizontal wells to be on-stream in November and December of 2016.

In the third quarter, we successfully consolidated working interests at the Consort and Hamilton Lake properties through the acquisition of six non-operated working interest partners in the property. We will continue to assess and evaluate additional interests in the area while also investigating other acquisitions that would add to our future growth prospects.

At September 30th, we were in a positive working capital position of over \$34 million and currently have positive working capital position of over \$27 million after accounting for expenses and capital expenditures for our Q4 drilling program. With the positive working capital, we intend to both consolidate our core area as well as look for new opportunities.

You will find enclosed the Karve Energy Inc. unaudited consolidated financial statements and MD&A for the three months ended September 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,

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 September 30, 2016 ("nine months ended September 30, 2016"). It is dated November 23, 2016 and should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 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 "Karve management team") replaced the previous management team (the "previous Bruin management team"). The Karve management team organized (i) a recapitalization of the Company through a series of private placements; (ii) the appointment of a new Board of Directors; and (iii) the acquisition of an oil-weighted asset base in the Alberta Viking formation.

OPERATIONAL AND FINANCIAL SUMMARY

The Company had producing oil and gas properties which were located in the Fiske area of Saskatchewan for the 15 day period from January 1, 2016 to January 15, 2016, when the Fiske producing property disposition closed (the "Fiske Producing Property Disposition"). Subsequent to the Fiske Producing Property Disposition, there was no oil and gas production until June 15, 2016 when the Company closed an acquisition of oil and gas properties located in the Alberta Viking formation (the "Viking Acquisition"). Sales volumes and operating results for the nine months ended September 30, 2016 include the 15 day production period from January 1, 2016 to January 15, 2016 and the 107 day production period from June 15, 2016 to September 30, 2016.

FINANCIAL (Canadian \$000, except per share and per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Net loss from continuing operations	(2,810)	(787)	(6,795)	(2,469)
Per basic and diluted shares	(0.04)	(0.03)	(0.17)	(0.10)
Net income (loss) from discontinued operations	-	(91)	18	(311)
Per basic and diluted shares	-	-	-	(0.01)
Funds flow used for operations ⁽¹⁾	(652)	(278)	(2,556)	(835)
Per basic and diluted shares ⁽¹⁾	(0.01)	(0.01)	(0.06)	(0.03)
Cash flow used for continuing operations	(1,177)	(371)	(2,515)	(1,328)
Per basic and diluted shares	(0.02)	(0.01)	(0.06)	(0.05)
Capital expenditures (excluding acquisitions) ⁽²⁾	994	46	1,087	462
Net acquisitions	862	-	21,082	-
Total capital expenditures (including acquisitions)	1,856	46	22,169	462
Working capital	34,190	19,773	34,190	19,773
Total assets	67,034	29,083	67,034	29,083
Shares outstanding, weighted average (000s)	63,879	25,789	39,824	25,789
OPERATIONAL				
Sales volumes				
Oil (bbl/d)	341	65	137	97
NGLs (bbl/d)	5	-	3	-
Natural gas (mcf/d)	747	-	288	-
Total (boe/d)	470	65	188	97



(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Average sales prices				
Oil (\$/bbl)	49.97	52.26	50.00	54.46
NGLs (\$/bbl)	53.07	-	53.50	-
Natural gas (\$/mcf)	2.40	-	2.27	-
Boe basis (\$/boe)	40.59	52.26	40.66	54.46
Netback (\$/boe)				
Sales price	40.59	52.26	40.66	54.46
Royalties	(2.47)	(4.03)	(2.41)	(4.36)
Operating expense	(38.14)	(24.54)	(37.39)	(21.21)
Transportation expense	(2.03)	-	(2.03)	-
Field netback⁽¹⁾	(2.05)	23.69	(1.17)	28.89

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

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

ACQUISITION OF OIL AND GAS ASSETS

Viking Acquisition

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

As a result of the Viking Acquisition, the Company was also required to pay deposits associated with the Alberta Energy Regulators ("AER") licensee liability rating program. The initial deposit of \$13.7 million was made on July 25, 2016 and was reduced by \$4.7 million to \$9.0 million on September 13, 2016. The deposits are refundable once the Company's operated 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 nine months ended September 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 consolidated statement of net and comprehensive loss.

The Company's consolidated 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 nine months ended September 30, 2016 includes \$2.0 million of revenue and \$59,000 of operating loss relating to the acquired assets. If the acquisition had closed on January 1, 2016, pro-forma revenue and operating income are estimated to be \$4.7 million and \$483,000 respectively for the nine months ended September 30, 2016. Operating income is defined as revenue, net of royalties less operating and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been in effect on the date indicated, or the results that may be obtained in the future.

Other Miscellaneous Acquisitions

Throughout the nine months ended September 30, 2016, the Company acquired various working interests, land, light oil producing properties, and reserves. The following table summarizes the aggregate fair value of net assets acquired and the preliminary allocation of the purchase price:

(\$000s)	
Exploration and evaluation assets	391
Property, plant and equipment	655
Decommissioning liabilities	(184)
FAIR VALUE OF NET ASSETS ACQUIRED	862

CONSIDERATION	
Cash	712
Shares	150
TOTAL PURCHASE PRICE	862

Consideration paid consists of \$712,000 cash and 150,000 common shares at a prescribed value of \$1.00 per common share.

PROPERTY DISPOSITION AND DISCONTINUED OPERATIONS

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

The carrying value of assets and associated decommissioning liabilities disposed during the nine months ended September 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 nine months ended September 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 consolidated 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 nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Petroleum and natural gas sales	-	311	31	1,435
Royalties	-	(24)	(2)	(115)
	-	287	29	1,320
Operating expense	-	146	11	559
Accretion expense	-	3	-	10
Depletion, depreciation and amortization	-	229	-	1,062
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	(91)	18	(311)

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

(\$000s)	As at	As at
	Sept. 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 consolidated statement of financial position are comprised of the following:

(\$000s)	As at	As at
	Sept. 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 470 boe/d during the three months ended September 30, 2016 compared to 65 boe/d for the three months ended September 30, 2015. The increase in sales volumes is due to the three months ended September 30, 2016 including a full quarter of production from the Viking acquisition which closed on June 15, 2016 whereas the comparative period includes the results from the Fiske producing property which was disposed of January 15, 2016.

All production during the three months ended September 30, 2016 is from the Viking property acquired on June 15, 2016, which is currently producing 511 boe/d as of the date of this MD&A. The increase in production since acquisition date is due to optimization and recompletion activities at Consort and Hamilton Lake, Alberta during the three months ended September 30, 2016.

AVERAGE SALES VOLUMES	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Oil (bbl/d)	341	65	137	97
Natural gas liquids (bbl/d)	5	-	3	-
Natural gas (mcf/d)	747	-	288	-
TOTAL SALES VOLUMES (boe/d)	470	65	188	97

SALES PRICES AND REVENUE

For the three months ended September 30, 2016, the Company generated revenue of \$1.8 million (September 30, 2015 - \$311,000) on average sales volumes of 470 boe/d. Revenue is recorded before clean oil and other transportation expenses. 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 September 30, 2016 was \$40.59. The Company sells its oil production at current market prices discounted for Alberta delivery points and adjusted for quality based on the density of the Company's sweet, light crude oil which averages 32° API. Natural gas produced in the Consort and Hamilton Lake areas of Alberta is sold whereas gas produced in the Fiske producing property of Saskatchewan was flared in the comparative period. The Company has not hedged any of its production as at November 23, 2016, the date of this MD&A.

KARVE AVERAGE REALIZED PRICE	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Revenue (\$000s) ⁽¹⁾	1,756	311	2,077	1,435
Oil (\$/bbl)	49.97	52.26	50.00	54.46
NGLs (\$/bbl)	53.07	-	53.50	-
Natural gas (\$/mcf)	2.40	-	2.27	-
Karve realized price (\$/boe)	40.59	52.26	40.66	54.46
AVERAGE BENCHMARK PRICES				
Crude oil - WTI (\$US/bbl)	44.94	46.43	41.33	51.00
Crude oil - Canadian light sweet (\$CDN/bbl)	54.19	55.09	50.14	59.09
Natural gas - AECO-C spot (\$CDN/mcf)	2.36	2.91	1.87	2.78
Exchange Rate - (\$US/\$CAD)	0.77	0.76	0.76	0.79

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

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Crude oil	1,567	311	1,870	1,435
Natural gas liquids	24	-	27	-
Natural gas	165	-	180	-
TOTAL PETROLEUM AND NATURAL GAS SALES ⁽¹⁾	1,756	311	2,077	1,435

(1) Sales of \$31,000 for the nine months ended September 30, 2016 are included in gain (loss) from discontinued operations in the consolidated statement of net and comprehensive loss.

All sales for the three and nine months ended September 30, 2015 are included in gain (loss) from discontinued operations in the consolidated statement of net and comprehensive loss.

ROYALTIES

Royalties include Crown, freehold and gross overriding royalties. Royalty expense for the three months ended September 30, 2016 was \$107,000 (\$2.47 per boe) compared to \$24,000 (\$4.03 per boe) for the three months ended September 30, 2015. For the three months ended September 30, 2016, the Company's royalty rate was 6.1% of revenues (three months ended September 30, 2015 – 7.7%), a decrease of 21% due to different royalty rates between the Alberta based assets at Consort and Hamilton Lake and the Saskatchewan based assets at the Fiske producing property which had higher gross overriding royalty rates. Royalty rates are expected to remain low due to the high percentage of Crown lands and the Alberta Governments Crown royalty incentive program.

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Royalty expense ⁽¹⁾	107	24	123	115
Royalty expense as a % of revenue	6.1%	7.7%	5.9%	8.0%
Per boe (\$)	2.47	4.03	2.41	4.36

(1) Royalty expense includes amounts presented as income (loss) from discontinued operations in the consolidated 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 \$1.7 million (\$38.14 per boe) during the three months ended September 30, 2016 and \$146,000 (\$24.54 per boe) for the three months ended September 30, 2015. Operating expenses per boe increased during the three months ended September 30, 2016 due to the Viking Acquisition which closed on June 15, 2016. Post closing of the acquisition, through a number of field activities Karve has been transitioning the high operating cost assets to a lower operating cost and has incurred a number of one-time costs as a result. This includes items such as one-time road and lease maintenance, pipeline cleaning, and facility repairs. The Company expects that operating costs per boe will be substantially lower once the transition is complete. Karve expects to complete the transition by the end of 2016. Additionally, as new horizontal wells come on production, the operating expense per boe is expected to decrease due to the fixed nature of a considerable portion of the expenses being allocated over increasing production volumes.

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Operating expense ⁽¹⁾	1,650	146	1,910	559
Per boe (\$)	38.14	24.54	37.39	21.21

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

TRANSPORTATION EXPENSE

Transportation expense includes costs paid to third parties for transporting clean oil, sales gas, and associated liquids to the pipeline or processing plant point of sale. Transportation expenses were \$88,000 (\$2.03 per boe) during the three months ended September 30, 2016 and \$nil for the three months ended September 30, 2015. The increase in transportation expense in the current period is due to clean oil trucking and firm service gas transportation costs incurred to transport production to sales points, whereas in the comparative period oil emulsion was transported to processing plants and sold at that location. The comparative period costs are presented as "operating expenses".



(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Transportation expense	88	-	88	-
Per boe (\$)	2.03	-	2.03	-

FIELD NETBACK

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

(\$000s, except per boe amounts)	For the three months ended		For the three months ended	
	September 30, 2016		September 30, 2015	
	\$	\$/boe	\$	\$/boe
Revenue	1,756	40.59	311	52.26
Royalties	(107)	(2.47)	(24)	(4.03)
Operating expense	(1,650)	(38.14)	(146)	(24.54)
Transportation expense	(88)	(2.03)	-	-
FIELD NETBACK (\$)⁽¹⁾	(89)	(2.05)	141	23.69

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

(\$000s, except per boe amounts)	For the nine months ended		For the nine months ended	
	September 30, 2016		September 30, 2015	
	\$	\$/boe	\$	\$/boe
Revenue	2,077	40.66	1,435	54.46
Royalties	(123)	(2.41)	(115)	(4.36)
Operating expense	(1,910)	(37.39)	(559)	(21.21)
Transportation expense	(88)	(2.03)	-	-
FIELD NETBACK (\$)⁽¹⁾	(44)	(1.17)	761	28.89

(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 nine months ended September 30, 2016 and September 30, 2015:

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Staff and consulting costs	424	206	1,988	649
Professional fees	101	53	257	189
Office and rent costs	143	59	293	167
Other	44	26	91	70
General and administration expense (Gross)	712	344	2,629	1,075
Capitalized G&A and overhead recovery	(101)	(20)	(101)	(87)
General and administration expense (Net)	611	324	2,528	988
Per boe (\$)	14.12	54.45	49.49	37.49

General and administrative expenses (net) for the three months ended September 30, 2016 were \$611,000 (\$14.12 per boe) and \$324,000 (\$54.45 per boe) for the three months ended September 30, 2015. The decrease in G&A per boe relates to increased sales volumes in the current period.

During the nine months ended September 30, 2016, the Company incurred one time restructuring costs on the transition of the Company to the 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 nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Financial income	65	46	157	153
Per boe (\$)	1.50	7.73	3.07	5.81

Financial income relates to interest income earned on bank deposits and short term investments. Interest income increased to \$65,000 for the three months ended September 30, 2016 compared to \$46,000 due to larger cash balances held on deposit and

higher interest rates earned during the three months ended September 30, 2016 compared to September 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 nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Share-based compensation - options	504	412	743	1,272
Share-based compensation - cancelled options	-	-	849	-
Share-based compensation - performance warrants	794	240	846	774
Share-based compensation - cancelled performance warrants	-	-	174	-
Share-based compensation - founder shares	-	-	635	-
Capitalized share-based compensation	-	(144)	-	(415)
Share based compensation expense	1,298	508	3,247	1,631
Per boe (\$)	30.00	85.37	63.57	61.89

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

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

During the nine months ended September 30, 2016, 6,365,000 stock options and 16,125,000 performance warrants were approved for issuance by the Board of Directors (year ended December 31, 2015 – 150,000).

SBC expense for the three months ended September 30, 2016, was \$1.3 million (three months ended September 30, 2015 - \$508,000) using the graded vesting method.

As at September 30, 2016, 6,365,000 stock options and 16,125,000 performance warrants were outstanding. The weighted average exercise price and fair value of the stock options outstanding was \$0.91 per option and \$0.57 per option respectively. The weighted average exercise price and fair value of the performance warrants outstanding was \$1.90 and \$0.40 respectively. There were no stock options or performance warrants exercised during the nine months ended September 30, 2016 and no stock options or performance warrants were exercisable at September 30, 2016.

DEPLETION, DEPRECIATION AND AMORTIZATION

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

During the three months ended September 30, 2016 depletion expense was \$701,000 (September 30, 2015 - \$229,000) due to increased production from the Consort and Hamilton Lake assets during the three months ended September 30, 2016 compared to the production volumes from the Fiske producing property during the comparative period.

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

(\$000s, except per boe amounts)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Depletion	701	229	811	1,062
Depreciation and amortization	3	1	5	3
Total DD&A (\$)	704	230	816	1,065
Per boe (\$)	16.27	38.65	15.97	40.41



CAPITAL EXPENDITURES & ACQUISITIONS

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

(\$000s)	For the three months ended		For the nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Acquisitions	862	-	23,568	-
Drilling and completions	923	-	923	279
Facilities and well equipment	-	11	-	62
Geological and geophysical	-	24	-	65
Land acquisitions	37	11	123	51
Office equipment	34	-	42	5
TOTAL CAPITAL EXPENDITURES AND ACQUISITIONS (\$000s)	1,856	46	24,656	462

During the three months ended September 30, 2016, the Company closed a total of 6 minor acquisitions for total consideration of \$862,000, subject to customary closing adjustments. Consideration paid consists of \$712,000 cash and 150,000 common shares at a prescribed value of \$1.00 per common share.

Drilling and completion operations during the three months ended September 30, 2016 relate to recompletion activities and planning and site preparation related to the fourth quarter drilling program.

DECOMMISSIONING LIABILITY

At September 30, 2016, the Company recorded a decommissioning liability of \$6.8 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 \$44.4 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 September 30, 2016, a 1 percent decrease in the discount rate used would create approximately a \$1.7 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. During the quarter, the Company abandoned one well for \$60,000.

SHARE CAPITAL

COMMON SHARES

(\$000s except for share amounts)	Number	Amount (\$)
Common Shares		
Balance at December 31, 2014	25,789,280	32,649
BALANCE AT DECEMBER 31, 2015	25,789,280	32,649
Issued for cash	38,963,324	40,530
Share issue costs	-	(627)
BALANCE AT SEPTEMBER 30, 2016	64,752,604	72,552

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

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

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 Karve management team at \$0.85 per share for gross proceeds of \$6.0 million.
- (ii) 21,000,000 common shares issued to other investors at \$1.00 per share for gross proceeds of \$21.0 million.

In July and August 2016, the Company completed a series of private placement financings, issuing 6,239,500 common shares at a price of \$1.00 per share for gross proceeds of \$6.2 million less \$26,000 in share issuance costs.

In August 2016, the Company issued a total of 290,000 common shares at a price of \$1.00 per share as purchase consideration for asset acquisitions and consulting services provided.

Concurrent to the equity issuances (not including the pull-call option or equity issued as consideration for asset acquisitions and consulting services) that closed during the nine months ended September 30, 2016, 34,298,324 share purchase warrants were issued. Each share purchase warrant entitles the holder to purchase one common share of the Company for a nominal amount in the event of a loss incurred by the Company in excess of \$450,000 which relates to a condition that existed prior to the June 15, 2016 recapitalization date. The share purchase warrants expire on June 15, 2017.

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.

PREFERRED SHARES AND PUT-CALL OPTIONS

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

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

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

(\$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 SEPTEMBER 30, 2016	-	-	-	-

INCOME TAXES

At September 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 September 30, 2016, the Company has estimated tax pools of \$46.4 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at September 30, 2016 are as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Operating leases	38,193	182,021	318,231	495,656	596,984	164,145	1,795,230
Pipeline transportation	19,095	61,359	11,689	-	-	-	92,143
Total annual commitments	57,288	243,380	329,920	495,656	596,984	164,145	1,887,373

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

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

RELATED PARTY DISCLOSURES

A previous Director of the Company, until June 15, 2016, was a Director of a company which received office rental payments of \$80,000 (September 30, 2015 - \$81,000) from Karve. The Company also incurred a total of \$291,000 (September 30, 2015 - \$96,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at September 30, 2016, \$35,000 related party amounts are included in accounts payable (December 31, 2015 - \$nil).

On August 17, 2016, Karve signed a purchase and sale agreement with a company owned by certain members of the Karve management team, wherein the Company purchased \$55,000 of office equipment and software licenses, reimbursed the related company for incurred third party consulting fees of \$42,000 and issued 43,000 common shares at \$1.00 per share to the related company in return for a payment of \$43,000. All payments resulted in a total issuance of 140,000 common shares at \$1.00 per share. This transaction has been reviewed and approved by the Board of Directors.

CAPITAL RESOURCES AND LIQUIDITY

EQUITY

The Company is authorized to issue an unlimited number of common shares and preferred shares. As at September 30, 2016, there were 64,752,604 common shares outstanding (December 31, 2015 – 25,789,279).

All stock options and performance warrants to the previous Bruin management were cancelled on June 15, 2016, and a new stock option and performance warrant plan has been put in place by the Board of Directors for the Karve management team. As at November 23, 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.

OFF BALANCE SHEET ARRANGEMENTS

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

All leases have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases on the consolidated statement of financial position as at September 30, 2016.

FORWARD-LOOKING INFORMATION AND STATEMENTS

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

Forward-looking statements concerning expected operating and economic conditions are based upon prior year results as well as assumptions that increases in market activity and growth will be consistent with industry activity in Canada. Forward-looking statements concerning the availability of funding for future operations are based upon the assumption that the sources of funding which the Company has relied upon in the past will continue to be available to the Company on terms favorable to the Company and that future economic and operating conditions will not limit the Company's access to debt and equity markets. Forward-looking statements in respect of the costs anticipated being associated with the acquisition of oil and gas properties are based

upon assumptions that future acquisition costs will not significantly increase from past acquisitions. Many of these factors, expectations and assumptions are based on management’s knowledge and experience in the industry and on public disclosure of industry participants and analysts related to anticipated exploration and development programs, the effect of changes to regulatory, taxation and royalty regimes. The Company believes that the material factors, expectations and assumptions reflected in the forward-looking statements and information are reasonable; however, no assurances can be given that these factors, expectations and assumptions will prove to be correct.

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

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

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

BARRELS OF OIL EQUIVALENT

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

NON-GAAP MEASUREMENTS

The MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company’s performance. The reconciliation between cash flow from operating activities and funds flow from operations can be found in the 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 nine months ended	
	Sept. 30, 2016	Sept. 30, 2015	Sept. 30, 2016	Sept. 30, 2015
Cash flow used for continuing operations	(1,177)	(371)	(2,515)	(1,328)
Change in non-cash working capital	525	93	(41)	493
FUNDS FLOW USED FOR OPERATIONS	(652)	(278)	(2,556)	(835)

The Company presents funds flow from operations per share whereby per share amounts are calculated consistent with the calculation of earnings per share. The MD&A contains other terms such as field netback and net available working capital which is not a recognized measure under IFRS. Management believes this measure is useful supplemental information. Field netback is the amount of revenues received on a per unit of production basis after the royalties, operating costs, and transportation costs are deducted. Net available working capital represents current assets less current liabilities and is used to assess efficiency, liquidity and the general financial strength of the Company. Readers are cautioned however, that these measures should not be construed as an alternative to other terms such as current and long-term debt or net earnings in accordance with IFRS as measures of performance. The Company’s method of calculating these measures may differ from other companies, and accordingly, such measures may not be comparable to measures used by other companies.



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Justin Crawford
Vice President, Operations

Clifford Brown
Vice President, Engineering

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^A Denotes member of the Audit Committee.

^R Denotes member of the Reserves Committee.

^C Denotes member of the Compensation Committee.

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