KARVE ENERGY INC

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS AND SIX MONTHS ENDED

JUNE 30, 2017 AND JUNE 30, 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited (Canadian $000s)	As at June 30, 2017	As at Dec. 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	6,479	21,905
Trade and other receivables (NOTE 5)	3,550	1,922
Prepaids and deposits (NOTE 6)	8,710	9,303
Derivative assets (NOTE 17)	336	-
TOTAL CURRENT ASSETS	19,075	33,130
Property, plant and equipment (NOTE 10)	47,517	32,275
Exploration and evaluation (NOTE 11)	7,645	8,478
Deferred income tax asset	4,068	4,634
TOTAL ASSETS	**78,305**	**78,517**
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 7)	7,555	9,861
TOTAL CURRENT LIABILITIES	**7,555**	**9,861**
Deferred lease liability (NOTE 16)	238	108
Decommissioning liability (NOTE 13)	7,574	7,154
TOTAL LIABILITIES	**15,367**	**17,123**
SHAREHOLDERS' EQUITY		
Share capital (NOTE 14)	73,006	73,006
Contributed surplus (NOTE 14)	10,347	6,657
Accumulated deficit	(20,415)	(18,269)
TOTAL SHAREHOLDERS' EQUITY	**62,938**	**61,394**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**78,305**	**78,517**

COMMITMENTS (NOTE 16)
SUBSEQUENT EVENTS (NOTE 21)

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

Approved on behalf of the Board of Directors:

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

Donald A. Engle
Chairman of the Board

James C. Lough
Director

CONSOLIDATED STATEMENT OF NET LOSS AND COMPREHENSIVE LOSS

Unaudited (Canadian $000s, except per share amounts)	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
REVENUE				
Petroleum and natural gas sales (NOTE 19)	10,017	290	16,153	290
Royalties	(566)	(14)	(928)	(14)
NET REVENUE	9,451	276	15,225	276
Gain on financial derivative contracts (NOTE 17)	329	-	535	-
Interest income	26	46	86	92
TOTAL REVENUE AND OTHER INCOME	9,806	322	15,846	368
EXPENSES				
Operating	2,750	249	4,839	249
Transportation	578	-	922	-
General and administration	1,465	1,503	1,851	1,917
Depletion, depreciation and amortization (NOTE 10)	3,366	111	5,406	112
Accretion (NOTE 13)	137	20	270	20
Share-based compensation (NOTE 15)	2,325	1,712	3,690	1,949
Exploration and evaluation - expiries (NOTE 11)	246	-	246	-
Transaction costs (NOTES 8 AND 21)	202	106	202	106
NET LOSS FROM CONTINUING OPERATIONS BEFORE TAX EXPENSE	(1,263)	(3,379)	(1,580)	(3,985)
TAX EXPENSE				
Deferred income tax expense	281	-	566	-
NET LOSS AND COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS	(1,544)	(3,379)	(2,146)	(3,985)
INCOME FROM DISCONTINUED OPERATIONS	-	-	-	18
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(1,544)	(3,379)	(2,146)	(3,967)
LOSS PER SHARE ($) (NOTE 14)				
Basic and diluted - continuing operations	(0.02)	(0.11)	(0.03)	(0.14)
TOTAL BASIC AND DILUTED	**(0.02)**	**(0.11)**	**(0.03)**	**(0.14)**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	For the three months ended		For the six months ended	
Unaudited (Canadian $000s)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
SHARE CAPITAL				
Balance, beginning of period	73,006	32,649	73,006	32,649
Issuance of share capital, net of issue costs (NOTE 14)	-	33,399	-	33,399
BALANCE, END OF PERIOD	73,006	66,048	73,006	66,048
CONTRIBUTED SURPLUS				
Balance, beginning of period	8,022	2,622	6,657	2,385
Share-based compensation (NOTE 15)	2,325	1,712	3,690	1,949
BALANCE, END OF PERIOD	10,347	4,334	10,347	4,334
DEFICIT				
Balance, beginning of period	(18,871)	(13,904)	(18,269)	(13,316)
Net loss and comprehensive loss for the period	(1,544)	(3,379)	(2,146)	(3,967)
BALANCE, END OF PERIOD	(20,415)	(17,283)	(20,415)	(17,283)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited (Canadian $000s)	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss and comprehensive loss from continuing operations	(1,544)	(3,379)	(2,146)	(3,985)
ITEMS NOT AFFECTING CASH:				
Depletion, depreciation and amortization (NOTE 10)	3,366	111	5,406	112
Accretion expense (NOTE 13)	137	20	270	20
Exploration and evaluation (NOTE 11)	246	-	246	-
Deferred lease expense	65	-	130	-
Share-based compensation (NOTE 15)	2,325	1,712	3,690	1,949
Unrealized gain on financial derivatives (NOTE 17)	(130)	-	(336)	-
Deferred income tax expense	281	-	566	-
Decommissioning expenditures (NOTE 13)	(18)	-	(18)	-
FUNDS FLOW FROM (USED FOR) OPERATIONS	**4,728**	**(1,536)**	**7,808**	**(1,904)**
Change in non-cash working capital (NOTE 19)	(607)	537	(2,552)	566
CASH FLOW FROM (USED FOR) CONTINUING OPERATIONS	4,121	(999)	5,256	(1,338)
Cash flow from (used for) discontinued operations	-	(93)	-	18
CASH FLOW FROM (USED FOR) OPERATING ACTIVITIES	**4,121**	**(1,092)**	**5,256**	**(1,320)**
INVESTING ACTIVITIES				
Exploration and evaluation (NOTE 11)	(96)	(94)	(97)	(94)
Property, plant and equipment (NOTE 10)	(7,862)	(22,706)	(20,239)	(22,706)
Acquisitions (NOTE 8)	(8)	-	(8)	-
Discontinued operations	-	-	451	2,486
Change in non-cash working capital (NOTE 19)	(765)	1,593	(789)	(257)
CASH FLOW USED FOR INVESTING ACTIVITIES	**(8,731)**	**(21,207)**	**(20,682)**	**(20,571)**
FINANCING ACTIVITIES				
Issue of shares on exercise of put-call option, net of issue costs (NOTE 14)	-	6,615	-	6,615
Issue of shares, net of issue costs (NOTE 14)	-	26,784	-	26,784
Change in non-cash working capital (NOTE 19)	-	-	-	-
CASH FLOW FROM FINANCING ACTIVITIES	**-**	**33,399**	**-**	**33,399**
Increase (decrease) in cash and cash equivalents	(4,610)	11,100	(15,426)	11,508
Cash and cash equivalents, beginning of period	11,089	19,423	21,905	19,015
CASH AND CASH EQUIVALENTS, END OF PERIOD	**6,479**	**30,523**	**6,479**	**30,523**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016. (Tabular amounts in thousands of Canadian dollars, unless otherwise stated. Amounts in text are in Canadian dollars unless otherwise stated).

1. REPORTING ENTITY

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

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

The condensed consolidated financial statements of the Company are comprised of Karve and its wholly-owned subsidiary "DTC Energy Inc." which was incorporated under the laws of the Province of Alberta.

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

2. BASIS OF PRESENTATION

Statement of Compliance and Authorization

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

The financial statements were approved and authorized for issue by Karve's Board of Directors on August 9, 2017.

Basis of Measurement

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

Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in NOTE 3 of the December 31, 2016 audited consolidated financial statements. There have been no significant changes in the Company's critical accounting estimates and judgments applied during the interim period ended June 30, 2017 relative to the most recent audited consolidated financial statements as at December 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as outlined below, the same accounting policies and methods of computation have been followed as the audited consolidated financial statements at December 31, 2016. The financial statements for the three and six months ended June 30, 2017 should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2016.

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

4. CHANGES IN ACCOUNTING POLICIES

At the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all the pronouncements will be adopted in the Company's accounting policies in the annual period in which they are first required.

IFRS 9 – Financial Instruments – The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the consolidated financial statements and provide more opportunities to apply hedge accounting. The mandatory effective date of this standard has tentatively been set to January 1, 2018. Management is currently assessing the potential impact of the adoption of IFRS 9 on the Company's consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers – This new standard specifies recognition requirements for revenue as well as requiring more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue related interpretations. This standard comes in effect January 1, 2018. Management is currently assessing the potential impact of adoption of this standard on the Company's consolidated financial statements.

IFRS 16 – Leases – This new standard replaces IAS 17 and will require all leases to be recorded on the Company's consolidated statement of financial position except those that meet the limited exception criteria. The expense associated with operating leases will be removed and be replaced with the recording of depreciation and finance expense, consistent with how finance leases are treated. This standard comes in effect January 1, 2019. Management is currently assessing the potential impact of adoption of this standard on the Company's consolidated financial statements.

5. TRADE AND OTHER RECEIVABLES

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Trade	3,159	1,304
Joint venture	268	175
GST	123	443
TRADE AND OTHER RECEIVABLES	**3,550**	**1,922**

6. PREPAIDS AND DEPOSITS

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Prepaids	412	220
Deposits	8,298	9,083
PREPAIDS AND DEPOSITS	**8,710**	**9,303**

On June 15, 2017, the Company paid a $4.0 million non-refundable deposit for certain petroleum & natural gas assets located in the Provost area of Alberta. This acquisition is set to close on August 15, 2017 (NOTE 21).

The Company has an irrevocable letter of credit in favor of the Alberta Energy Regulator in the amount of $4.2 million related to the assets acquired in the Alberta Viking formation on June 15, 2016 (NOTE 8). The letter of credit bears interest at 1.25% and requires a security deposit in accordance with the Alberta Energy Regulator's licensee liability rating program. The letter of credit is securitized through redeemable guaranteed investment certificate's earning 0.40% with maturities of one month.

Subsequent to June 30, 2017, the letter of credit in favor of the Alberta Energy Regulator and related security deposit was fully refunded as a result of an increase in the Company's licensee liability ratio to greater than 1. This resulted in a reduction in prepaids and deposits and an increase in cash and cash equivalents of $4.2 million.

7. TRADE AND OTHER PAYABLES

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Trade	5,993	8,575
Accrued	1,353	1,156
Royalties	40	67
Joint venture	169	63
TRADE AND OTHER PAYABLES	**7,555**	**9,861**

8. ACQUISITIONS

The Company accounts for business combinations using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

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. The assets acquired consisted of producing properties, reserves, facilities, and undeveloped land. The effective date of the acquisition was April 1, 2016.

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

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

During the six months ended June 30, 2017, the Company incurred $202,000 of transaction costs related to the acquisition of certain petroleum and natural gas assets in the Provost area of Alberta (NOTE 21) which were recorded as "transaction costs" in the Company's consolidated statement of net loss and comprehensive loss. For the period ended December 31, 2016, the Company incurred $106,000 of transaction costs related to the Viking Acquisition.

Other Miscellaneous Acquisitions

Throughout the six months ended June 30, 2017, the Company acquired royalty interests for $7,500 of cash consideration.

See NOTE 21, Subsequent Events.

9. PROPERTY DISPOSITION

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

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

During the six months ended June 30, 2017, the remaining undeveloped land in the Fiske CGU was disposed of for $451,000 (NOTE 11). As a result of this disposition, the Company no longer has operations in Saskatchewan.

10. PROPERTY, PLANT AND EQUIPMENT

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

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Petroleum and natural gas assets at cost	54,653	34,014
Corporate assets at cost	70	61
Property, plant and equipment at cost	54,723	34,075
Accumulated depletion and depreciation	(7,206)	(1,800)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	**47,517**	**32,275**

Petroleum and Natural Gas Assets

COST ($000s)	
Balance at December 31, 2015	23
Additions	11,228
Acquisitions (NOTE 8)	21,539
Transfer from exploration and evaluation assets (NOTE 11)	341
Change in decommissioning provision (NOTE 13)	883
BALANCE AT DECEMBER 31, 2016	**34,014**
Additions	20,230
Acquisitions (NOTE 8)	8
Transfer from exploration and evaluation assets (NOTE 11)	233
Change in decommissioning provision (NOTE 13)	168
BALANCE AT JUNE 30, 2017	**54,653**

ACCUMULATED DEPLETION ($000s)	
Balance at December 31, 2015	-
Depletion	1,787
BALANCE AT DECEMBER 31, 2016	**1,787**
Depletion	5,399
BALANCE AT JUNE 30, 2017	**7,186**
NET CARRYING AMOUNT, JUNE 30, 2017	**47,467**

At June 30, 2017, future development and production costs of $37.4 million (December 31, 2016 - $12.3 million) are included in costs subject to depletion. There were no indicators of impairment at June 30, 2017.

General and administration costs capitalized by the Company during the six months ended June 30, 2017 were $342,000 (year ended December 31, 2016 - $205,000).

Corporate Assets

COST ($000s)	
Balance at December 31, 2015	20
Additions	41
BALANCE AT DECEMBER 31, 2016	**61**
Additions	9
BALANCE AT JUNE 30, 2017	**70**

ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2015	5
Depreciation and amortization	8
BALANCE AT DECEMBER 31, 2016	**13**
Depreciation and amortization	7
BALANCE AT JUNE 30, 2017	**20**
NET CARRYING AMOUNT, JUNE 30, 2017	**50**

11. EXPLORATION AND EVALUATION

Exploration and evaluation assets consist of the Company's undeveloped land, seismic, geological and geophysical costs and exploration projects that are pending the determination of technical feasibility. There were no indicators of impairment at June 30, 2017.

($000s)	
Balance at December 31, 2015	200
Additions	149
Acquisitions (NOTE 8)	8,280
Transfers to petroleum and natural gas assets (NOTE 10)	(341)
Expiries	(57)
Recovery of exploration and evaluation assets previously impaired	247
BALANCE AT DECEMBER 31, 2016	**8,478**
Additions	97
Disposals	(451)
Transfers to petroleum and natural gas assets (NOTE 10)	(233)
Expiries	(246)
BALANCE AT JUNE 30, 2017	**7,645**

On February 8, 2017, the Company disposed of all undeveloped land in Fiske, Saskatchewan for total proceeds of $451,000. There was no gain or loss on this sale. During the previous year ended December 31, 2016, impairment expense of $247,000 was reversed related to this land.

12. BANK DEBT

At June 30, 2017, the Company had a $1.0 million revolving operating demand facility (the "facility") with a Canadian chartered bank. As at June 30, 2017, nil was drawn on the facility. The facility bears interest at prime plus 1.00% per annum and has a standby fee of 0.50% per annum on the undrawn portion of the facility. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts.

Subsequent to June 30, 2017, Karve's operating demand facility with a Canadian chartered bank was increased from $1.0 million to $13.0 million, increasing to $25 million upon the closing of the acquisition described in NOTE 21.

13. DECOMMISSIONING LIABILITY

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

The Company estimates its total undiscounted amount of cash flows required to settle its decommissioning liability is approximately $57.8 million, which will be incurred over the remaining life of the assets with the majority of costs to be incurred between 2037 and 2057. The estimated future cash flows have been discounted using a credit adjusted rate of approximately 8% and an inflation rate of 2 %. At June 30, 2017, a 1 % decrease in the discount rate used would create approximately a $2.0 million increase in the decommissioning liability, and a 1 % increase in the discount rate used would create approximately a $1.5 million decrease in the decommissioning liability. The following table shows changes in the decommissioning liability:

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Balance, beginning of period	7,154	-
Decommissioning liabilities incurred during the period	168	58
Decommissioning liabilities acquired through acquisitions (NOTE 8)	-	6,084
Decommissioning liabilities settled during the period	(18)	(60)
Accretion expense during the period	270	247
Change in estimate	-	825
BALANCE, END OF PERIOD	**7,574**	**7,154**

14. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares.

Unlimited number of preferred shares, issuable in series.

b) Issued and Outstanding Common Shares

($000s except for share amounts)	Number	Amount ($)
Common Shares		
Balance at December 31, 2015	25,789,280	32,649
Issued for cash	38,963,324	40,530
Share issue costs, net of deferred tax ($447,000)	-	(173)
BALANCE AT DECEMBER 31, 2016 AND JUNE 30, 2017	**64,752,604**	**73,006**

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

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

- (i) 7,058,824 common shares issued to certain members of the Karve management team at $0.85 per share for gross proceeds of $6.0 million.
- (ii) 21,000,000 common shares issued to other investors at $1.00 per share for gross proceeds of $21.0 million.

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

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

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

Concurrent to the equity issuances (not including the put-call option or equity issued as consideration for asset acquisitions and consulting services) that closed during the previous year ended December 31, 2016, 34,298,324 share purchase warrants were issued. Each share purchase warrant entitles the holder to purchase one common share of the Company for a nominal amount in the event of a loss incurred by the Company in excess of $450,000 which relates to a condition that existed prior to the June 15, 2016 recapitalization date. The share purchase warrants expired on June 15, 2017 without being exercised.

c) Contributed Surplus

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Balance, beginning of period	6,657	2,385
Share-based compensation - options	1,109	2,146
Share-based compensation - warrants	2,581	1,491
Share-based compensation - founder shares	-	635
BALANCE, END OF PERIOD	**10,347**	**6,657**

d) Per Share Amounts

	For the three months ended		For the six months ended	
($000s except per share amounts)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net loss from continuing operations	(1,544)	(3,379)	(2,146)	(3,985)
Net income from discontinued operations	-	-	-	18
Net loss for the period	(1,544)	(3,379)	(2,146)	(3,967)
Weighted average number of shares - basic and diluted	**64,752,604**	**29,491,929**	**64,752,604**	**27,640,604**
Basic and diluted net loss per share - continuing operations	**(0.02)**	**(0.11)**	**(0.03)**	**(0.14)**
Basic and diluted net loss per share	**(0.02)**	**(0.11)**	**(0.03)**	**(0.14)**

At June 30, 2017, 6,475,000 stock options and 16,125,000 performance warrants were excluded from the fully diluted calculation as they are anti-dilutive.

15. SHARE-BASED COMPENSATION

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Share-based compensation - options	519	53	1,109	239
Share-based compensation - cancelled options	-	849	-	849
Share-based compensation - performance warrants	1,806	-	2,581	52
Share-based compensation - cancelled performance warrants	-	175	-	174
Share-based compensation - founder shares	-	635	-	635
TOTAL SHARE-BASED COMPENSATION	**2,325**	**1,712**	**3,690**	**1,949**

a) Stock Options

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

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

During the six months ended June 30, 2017, 110,000 stock options were approved for issuance by the Board of Directors (year ended December 31, 2016 – 6,365,000).

Share-based compensation related to stock options during the six months ended June 30, 2017 was $1.1 million (six months ended June 30, 2016 – $1.1 million).

The following table sets forth a reconciliation of the stock option plan activity through to June 30, 2017:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2015	2,731,000	1.39
Cancelled	(2,731,000)	1.39
Granted	6,365,000	0.91
BALANCE AT DECEMBER 31, 2016	6,365,000	0.91
Granted	110,000	1.61
BALANCE AT JUNE 30, 2017	**6,475,000**	**0.92**

There were no stock options exercised during the six months ended June 30, 2017 (year ended December 31, 2016 – nil) and 1,390,770 stock options were exercisable at June 30, 2017 (year ended December 31, 2016 – nil).

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at June 30, 2017 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of options outstanding	Number of options exercisable
$0.85	3.96	3,722,310	1,340,770
$1.00	4.06	2,642,690	50,000
$1.00 - $1.65	4.71	110,000	-
	4.01	**6,475,000**	**1,390,770**

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

	For the six months ended	
	June 30, 2017	June 30, 2016
Weighted average fair value of options	0.78	0.58
Risk-free Interest rate (%)	1.08%	0.53%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	56%	66%
Weighted average grant date share price	1.61	1.00
Forfeiture rate	-	-
Expected dividend yield (%)	-	-

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

b) Performance Warrants

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

During the previous year ended December 31, 2016, 16,125,000 performance warrants were approved for issuance by the Board of Directors. The performance warrants entitle the holder to purchase one common share of the Company and have the following vesting dates and exercise prices:

- Issue date $1.50
- First anniversary $1.70
- Second anniversary $1.90
- Third anniversary $2.10
- Fourth anniversary $2.30

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 related to performance warrants during the six months ended June 30, 2017 was $2.6 million (six months ended June 30, 2016 - $226,000).

The following table sets forth a reconciliation of performance warrant activity through to June 30, 2017:

	Number	Wtd. Avg. Exercise Price ($)
Balance at December 31, 2015	1,951,000	2.21
Cancelled	(1,951,000)	2.21
Granted	16,125,000	1.90
BALANCE AT DECEMBER 31, 2016 AND JUNE 30, 2017	**16,125,000**	**1.90**

There were no performance warrants exercised during the six months ended June 30, 2017 (year ended December 31, 2015 – nil) and 300,000 performance warrants were exercisable at June 30, 2017 (year ended December 31, 2016 – nil).

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at June 30, 2017 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
$1.50	4.06	3,225,000	60,000
$1.70	4.06	3,225,000	60,000
$1.90	4.06	3,225,000	60,000
$2.10	4.06	3,225,000	60,000
$2.30	4.06	3,225,000	60,000
	4.06	**16,125,000**	**300,000**

There were no performance warrants granted during the six months ended June 30, 2017 (year ended December 31, 2016 – 16,125,000).

16. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at June 30, 2017 are as follows:

	2017	2018	2019	2020	2021	Therafter	Total
Operating leases	111,236	329,432	496,589	596,984	164,145	-	1,698,386
Pipeline transportation	25,258	11,689	-	-	-	-	36,947
Total annual commitments	**136,494**	**341,121**	**496,589**	**596,984**	**164,145**	**-**	**1,735,333**

Karve has a five-year office lease with an option to both Karve and the lessor to terminate the lease at any time after July 19, 2019.

The lessor has the right to terminate the office lease with 6 months written notice at any point after July 30, 2019. There is no compensation to Karve should Karve terminate the lease after this date.

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

The “Deferred lease liability” of $238,000 presented on the consolidated statement of financial position represents the difference between cash lease payments and accounting operating lease payments which are recognized on a straight-line basis over the life of the lease. In the early years of the lease, the cash outflow is less than the accounting operating lease payment which gives rise to the deferred lease liability.

17. FINANCIAL INSTRUMENTS

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

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

a) Fair Value of Financial Instruments

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

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

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

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

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

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

The following table summarizes Karve’s financial instruments at June 30, 2017:

($000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents (level 1)	-	6,479	-	6,479
Trade and other receivables (level 1)	-	3,550	-	3,550
Deposits (level 1)	-	8,298	-	8,298
Derivative contract assets (level 2)	336	-	-	336
	336	**18,327**	**-**	**18,663**
Liabilities				
Trade and other payables (level 1)	-	-	7,555	7,555
	-	**-**	**7,555**	**7,555**

The following table summarizes Karve's financial instruments at December 31, 2016:

($000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents (level 1)	-	21,905	-	21,905
Trade and other receivables (level 1)	-	1,922	-	1,922
Deposits (level 1)	-	9,083	-	9,083
	-	**32,910**	**-**	**32,910**
Liabilities				
Trade and other payables (level 1)	-	-	9,861	9,861
	-	**-**	**9,861**	**9,861**

b) Risk Associated with Financial Assets and Liabilities

Commodity Price Risk

Due to the volatile nature of natural gas and oil commodity prices, the Company is potentially exposed to adverse consequences if commodity prices decline. The Company is exposed to commodity price movements as part of its operations, particularly in relation to the prices received for its oil and gas production. Oil and gas is sensitive to numerous worldwide factors, many of which are beyond the Company's control. Changes in global supply and demand fundamentals in the oil and gas market and geopolitical events can significantly affect oil and gas prices. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due. The Company's oil production is sold under short-term contracts, exposing it to the risk of near-term price movements. It is the Company's policy to hedge a portion of its crude oil sales through the use of financial derivative contracts. The Company does not apply hedge accounting to these contracts. As at June 30, 2017, the Company had the following crude oil commodity contract in place:

Term	Contract	Volume (Bbl/d)	Fixed Price ($CAD/Bbl)[1]	Current Net Asset ($000s)	Long Term Net Asset ($000s)
Jul. 2017 - Sep. 2017	Fixed price swap	300	72.25	336	-
DERIVATIVE ASSETS				**336**	-

(1) Nymex WTI monthly average in $CAD.

The components of the gain on the financial derivative contract is as follows:

	For the three months ended		For the six months ended	
($000s)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Realized gain on financial derivative contracts	199	-	199	-
Unrealized gain on financial derivative contracts	130	-	336	-
GAIN ON FINANCIAL DERIVATIVE CONTRACTS	**329**	**-**	**535**	**-**

At June 30, 2017, the fair value of the financial derivative contract was a current asset position of $336,000 resulting in an unrealized gain of $336,000. Assuming all other variables remain constant, a $5.00 USD increase in WTI would result in a $135,000 decrease in the unrealized gain and a $5.00 USD decrease in WTI would result in a $135,000 increase in the unrealized gain.

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the operating demand facility interest is based on prime interest rates plus 1.00%. As at June 30, 2017, nil was drawn on the operating demand facility.

Liquidity Risk

The Company's approach to managing liquidity risk is to have sufficient cash and/or credit facilities to meet its obligations when due. Management typically forecasts cash flows for a period of 12 months to identify any financing requirements. Liquidity is managed through daily and longer-term cash, debt, and equity management strategies. These include estimating future cash generated from operations based on reasonable production and pricing assumptions, estimating future discretionary and non-discretionary capital expenditures, and assessing the amount of equity or debt financing available. At June 30, 2017, the Company considers itself to be well-capitalized, with working capital in excess of current commitments. The Company's financial liabilities include trade and other payables of $7.6 million (year ended December 31, 2016 - $9.9 million). All financial liabilities have contractual maturities of less than one year.

18. CAPITAL MANAGEMENT

a) Capital Base

In order to continue the Company's future exploration and development program, the Company must maintain a strong capital base to enable access to equity and debt markets. The Company continually monitors the risk/reward profile of its exploration and development projects and the economic indicators in the market including commodity prices, interest rates and foreign exchange rates. After considering these factors, revisions to the Company's capital budget is made upon the approval of the Board of Directors.

The Company considers shareholders' capital and net debt (excluding derivative assets) as components of its capital base. The Company can access or increase capital through the issuance of shares, through bank borrowings (based on reserves) and by building cash reserves by reducing its capital expenditure program.

The following table represents the net capital of the Company:

($000s)	As at June 30, 2017	As at Dec. 31, 2016
Shareholders' capital	62,938	61,394
Net debt (excluding derivative assets)	11,184	23,269
CAPITAL BASE	**74,122**	**84,663**

The Company monitors its capital based primarily on its net debt to annualized funds flow ratio. Net debt and annualized funds flow are non-GAAP measures. Net debt is defined as working capital excluding derivative assets. Annualized funds flow is calculated as cash flow from operations before changes in non-cash working capital for the Corporation's most recent quarter, multiplied by four. To facilitate the management and control its' capital base, the Company prepares annual operating and capital expenditure budgets. The budgets are updated when critical factors change. These include economic factors such as the state of equity markets, changes to commodity prices, interest rates and foreign exchange rates and Company specific factors or assumptions such as the Company's drilling results and its production profile. The Company's Board of Directors approves the budget and changes thereto. As at June 30, 2017, the Company had a net debt surplus $11.2 million (December 31, 2016 - $23.2 million).

The Company's share capital is not subject to external restrictions but the Company does have financial covenants with regards to its' revolving operating demand facility. The facility requires that the Company maintain a working capital ratio of not less than 1 : 1 with customary adjustments for undrawn amounts on the facility and the mark-to-market impact of financial derivative contracts. The Company would be considered to be in breach of its credit agreement if the minimum working capital ratio was not maintained, unless consented to by the lender. As at June 30, 2017 the Company is in compliance with all covenants.

19. SUPPLEMENTAL INFORMATION

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
CHANGES IN NON-CASH WORKING CAPITAL:				
Trade and other receivables (NOTE 5)	(202)	(329)	(1,628)	(201)
Prepaids and deposits (NOTE 6)	772	1,509	593	(291)
Trade and other payables (NOTE 7)	(1,942)	857	(2,306)	801
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**(1,372)**	**2,037**	**(3,341)**	**309**
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:				
Operating activities	(607)	537	(2,552)	566
Investing activities	(765)	1,593	(789)	(257)
Discontinued operations	-	(93)	-	-
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	**(1,372)**	**2,037**	**(3,341)**	**309**

In the "Operating Activities" line in the consolidated statement of cash flows, non-cash deferred lease expense of $130,000 relates to the difference between cash lease payments and accounting operating lease payments which are recognized on a straight-line basis over the life of the lease (Note 16).

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Crude oil	9,709	272	15,609	272
Natural gas liquids	37	3	69	3
Natural gas	271	15	475	15
TOTAL PETROLEUM AND NATURAL GAS SALES	**10,017**	**290**	**16,153**	**290**

20. RELATED PARTY DISCLOSURES

a) Key Management Personnel

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

	For the three months ended		For the six months ended	
($000s)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Salaries and benefits	657	146	990	269
Consulting fees	-	32	-	62
Termination benefits	-	997	-	997
Share-based compensation benefit	2,012	1,620	3,058	1,846
TOTAL KEY MANAGEMENT COMPENSATION	**2,669**	**2,795**	**4,048**	**3,174**

b) Other Related Party Transactions

The Company incurred a total of $148,000 (six months ended June 30, 2016 -$142,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at June 30, 2017, $54,000 in fees for these legal services are included in accounts payable (six months ended June 30, 2016 - $67,000). In the comparative period 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 $42,000 from Karve.

21. SUBSEQUENT EVENTS

Acquisition of Oil and Gas Assets

On June 15, 2017, the Company entered into a purchase and sale agreement to acquire certain oil and gas assets in the Provost area of Alberta (the "Provost Acquisition") for total consideration of $118 million, subject to customary closing adjustments. The effective date of the acquisition is January 1, 2017 and the acquisition is expected to close on or about August 15, 2017 and is subject to financing and a number of other matters customary in transactions of this nature.

An initial non-refundable deposit of $4.0 million was made on June 15, 2017. A second deposit of $7.8 million was made on July 31, 2017. The balance of the purchase price is payable at closing, which is expected to be on or about August 15, 2017.

The assets to be acquired in the Provost Acquisition complement Karve's existing assets at Consort and Hamilton Lake as they are in the same area. The assets being acquired are currently producing approximately 6,500 BOE/d, and include significant infrastructure and future drilling locations in the area.

The Company expects to finance the acquisition through issuing 71,000,000 common shares of Karve at $2.00 per common share for total proceeds of $142 million. The financing is expected to close on August 15, 2017.

Revolving Operating Demand Facility

On July 27, 2017, Karve's operating demand facility with a Canadian chartered bank was increased from $1.0 million to $13.0 million with a further increase to the borrowing base to $25.0 million upon closing the Provost acquisition. The new operating demand facility bears interest at rates ranging from prime plus 1.0 to 2.5 percent, depending on net debt to trailing cash-flow ratio (as defined), and is subject to annual standby fees on the undrawn portion of between 0.20% and 0.50% depending on net debt to trailing cash-flow ratio (as defined).

Promissory Notes

Pursuant to the Provost Acquisition, on July 26, 2017, the Company entered into promissory notes with certain major shareholders for a total of $8.0 million. The promissory notes are interest free until September 1, 2017 and bear interest of 8.0% per annum effective September 1, 2017. Karve has the right to repay the promissory notes with cash or by the issuance of common shares of the Company at a price of $2.00 per common share.

LLR Security Deposit Refund

On July 17, 2017, the irrevocable letter of credit in favor of the Alberta Energy Regulator was reduced from $4.2 million to nil as a result of an increase in the Company's licensee liability ratio along with a reduction in prepaids and deposits and an increase in cash and cash equivalents of $4.2 million.