



UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2017 AND MARCH 31, 2016



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited (Canadian \$000s)	As at Mar. 31, 2017	As at Dec. 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	11,089	21,905
Trade and other receivables (NOTE 5)	3,348	1,922
Prepays and deposits (NOTE 6)	9,482	9,303
Derivative assets (NOTE 18)	206	-
TOTAL CURRENT ASSETS	24,125	33,130
Property, plant and equipment (NOTE 10)	42,863	32,275
Exploration and evaluation (NOTE 11)	7,879	8,478
Deferred income tax asset	4,349	4,634
TOTAL ASSETS	79,216	78,517
LIABILITIES		
Current Liabilities		
Trade and other payables (NOTE 7)	9,497	9,861
TOTAL CURRENT LIABILITIES	9,497	9,861
Deferred lease liability (NOTE 17)	173	108
Decommissioning liability (NOTE 13)	7,389	7,154
TOTAL LIABILITIES	17,059	17,123
SHAREHOLDERS' EQUITY		
Share capital (NOTE 14)	73,006	73,006
Contributed surplus (NOTE 14)	8,022	6,657
Accumulated deficit	(18,871)	(18,269)
TOTAL SHAREHOLDERS' EQUITY	62,157	61,394
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	79,216	78,517

COMMITMENTS (NOTE 17)

SUBSEQUENT EVENTS (NOTE 22)

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 Mar. 31, 2017	For the three months ended Mar. 31, 2016
REVENUE		
Petroleum and natural gas sales (NOTE 20)	6,136	-
Royalties	(362)	-
NET REVENUE	5,774	-
Gain on financial derivative contracts (NOTE 18)	206	-
Interest income	60	46
TOTAL REVENUE AND OTHER INCOME	6,040	46
EXPENSES		
Operating	2,089	-
Transportation	344	-
General and administration	386	414
Depletion, depreciation and amortization (NOTE 10)	2,040	1
Accretion (NOTE 13)	133	-
Share-based compensation (NOTE 15)	1,365	237
NET LOSS FROM CONTINUING OPERATIONS BEFORE TAX EXPENSE	(317)	(606)
TAX EXPENSE		
Deferred income tax expense	285	-
NET LOSS AND COMPREHENSIVE LOSS FROM CONTINUING OPERATIONS	(602)	(606)
INCOME FROM DISCONTINUED OPERATIONS (NOTE 16)	-	18
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(602)	(588)
LOSS PER SHARE (\$) (NOTE 14)		
Basic and diluted - continuing operations	(0.01)	(0.02)
Basic and diluted - discontinued operations	-	-
TOTAL BASIC AND DILUTED	(0.01)	(0.02)

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited (Canadian \$000s)	For the three months ended Mar. 31, 2017	For the three months ended Mar. 31, 2016
SHARE CAPITAL		
Balance, beginning of period	73,006	32,649
BALANCE, END OF PERIOD	73,006	32,649
CONTRIBUTED SURPLUS		
Balance, beginning of period	6,657	2,385
Share-based compensation (NOTE 15)	1,365	237
BALANCE, END OF PERIOD	8,022	2,622
DEFICIT		
Balance, beginning of period	(18,269)	(13,316)
Net loss and comprehensive loss for the period	(602)	(588)
BALANCE, END OF PERIOD	(18,871)	(13,904)

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 Mar. 31, 2017	For the three months ended Mar. 31, 2016
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss and comprehensive loss from continuing operations	(602)	(606)
ITEMS NOT AFFECTING CASH:		
Depletion, depreciation and amortization (NOTE 10)	2,040	1
Accretion expense (NOTE 13)	133	-
Deferred lease expense	65	-
Share-based compensation (NOTE 15)	1,365	237
Unrealized gain on financial derivatives (NOTE 18)	(206)	-
Deferred income tax expense	285	-
FUNDS FLOW FROM (USED FOR) OPERATIONS	3,080	(368)
Change in non-cash working capital (NOTE 20)	(1,945)	29
CASH FLOW FROM (USED FOR) CONTINUING OPERATIONS	1,135	(339)
Cash flow from discontinued operations (NOTE 20)	-	111
CASH FLOW FROM (USED FOR) OPERATING ACTIVITIES	1,135	(228)
INVESTING ACTIVITIES		
Exploration and evaluation (NOTE 11)	(1)	-
Property, plant and equipment (NOTE 10)	(12,377)	-
Discontinued operations (NOTES 16 AND 20)	451	2,486
Change in non-cash working capital (NOTE 20)	(24)	(1,850)
CASH FLOW USED FOR INVESTING ACTIVITIES	(11,951)	636
Increase (decrease) in cash and cash equivalents	(10,816)	408
Cash and cash equivalents, beginning of period	21,905	19,015
CASH AND CASH EQUIVALENTS, END OF PERIOD	11,089	19,423

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31, 2017 and for the three months ended March 31, 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 May 10, 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 March 31, 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 months ended March 31, 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	As at
	Mar. 31, 2017	Dec. 31, 2016
Trade	2,662	1,304
Joint venture	279	175
GST	407	443
TRADE AND OTHER RECEIVABLES	3,348	1,922

6. PREPAIDS AND DEPOSITS

(\$000s)	As at	As at
	Mar. 31, 2017	Dec. 31, 2016
Prepays	398	220
Deposits	9,084	9,083
PREPAIDS AND DEPOSITS	9,482	9,303

The Company has an irrevocable letter of credit in favor of the Alberta Energy Regulator in the amount of \$9.0 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 non-redeemable guaranteed investment certificate's earning between 0.83% and 0.85% with maturities of one month.

Subsequent to March 31, 2017, the letter of credit in favor of the Alberta Energy Regulator and related security deposit was reduced to \$4.2 million as a result of an increase in the Company's licensee liability ratio along with a reduction in deposits and an increase in cash and cash equivalents of \$4.8 million

7. TRADE AND OTHER PAYABLES

(\$000s)	As at	As at
	Mar. 31, 2017	Dec. 31, 2016
Trade	8,432	8,575
Royalties	40	67
Joint venture	202	63
Accrued	823	1,156
TRADE AND OTHER PAYABLES	9,497	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, 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.

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 previous year ended December 31, 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 loss and comprehensive loss.

Other Miscellaneous Acquisitions

The following table summarizes the aggregate fair value of net assets acquired pursuant to minor property acquisitions completed during the previous year ended December 31, 2016.

(\$000s)	
Exploration and evaluation assets	391
Property, plant and equipment	847
Decommissioning liabilities	(212)
FAIR VALUE OF NET ASSETS ACQUIRED	1,026
CONSIDERATION	
Cash	876
Shares	150
TOTAL PURCHASE PRICE	1,026

Consideration paid consists of \$876,000 cash and 150,000 common shares at a prescribed value of \$1.00 per common share.

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 three months ended March 31, 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 Mar. 31, 2017	As at Dec. 31, 2016
Petroleum and natural gas assets at cost	46,634	34,014
Corporate assets at cost	69	61
Property, plant and equipment at cost	46,703	34,075
Accumulated depletion and depreciation	(3,840)	(1,800)
PROPERTY, PLANT AND EQUIPMENT NET CARRYING AMOUNT	42,863	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	12,369
Transfer from exploration and evaluation assets (NOTE 11)	149
Change in decommissioning provision (NOTE 13)	102
BALANCE AT MARCH 31, 2017	46,634
ACCUMULATED DEPLETION (\$000s)	
Balance at December 31, 2015	-
Depletion	1,787
BALANCE AT DECEMBER 31, 2016	1,787
Depletion	2,037
BALANCE AT MARCH 31, 2017	3,824
NET CARRYING AMOUNT, MARCH 31, 2017	42,810

At March 31, 2017, future development and production costs of \$31.7 million (December 31, 2016 - \$12.3 million) are included in costs subject to depletion. There were no indicators of impairment at March 31, 2017.

Corporate Assets

COST (\$000s)	
Balance at December 31, 2015	20
Additions	41
BALANCE AT DECEMBER 31, 2016	61
Additions	8
BALANCE AT MARCH 31, 2017	69
ACCUMULATED DEPRECIATION AND AMORTIZATION	
Balance at December 31, 2015	5
Depreciation and amortization	8
BALANCE AT DECEMBER 31, 2016	13
Depreciation and amortization	3
BALANCE AT MARCH 31, 2017	16
NET CARRYING AMOUNT, MARCH 31, 2017	53

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 March 31, 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	1
Disposals	(451)
Transfers to petroleum and natural gas assets (NOTE 10)	(149)
BALANCE AT MARCH 31, 2017	7,879

On February 8, 2017, the Company disposed of all its' 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 March 31, 2017, the Company had a \$1.0 million revolving operating demand facility (the "facility") with a Canadian chartered bank. As at March 31, 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.

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 \$56.6 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 March 31, 2017, a 1 % decrease in the discount rate used would create approximately a \$1.9 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	As at
	Mar. 31, 2017	Dec. 31, 2016
Balance, beginning of period	7,154	-
Decommissioning liabilities incurred during the period	102	58
Decommissioning liabilities acquired through acquisitions (NOTE 8)	-	6,084
Decommissioning liabilities settled during the period	-	(60)
Accretion expense during the period	133	247
Change in estimate	-	825
BALANCE, END OF PERIOD	7,389	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 MARCH 31, 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 pull-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 expire on June 15, 2017.

c) Contributed Surplus

(\$000s)	As at Mar. 31, 2017	As at Dec. 31, 2016
Balance, beginning of period	6,657	2,385
Share-based compensation - options (expense)	590	2,146
Share-based compensation - warrants (expense)	775	1,491
Share-based compensation - founder shares	-	635
BALANCE, END OF PERIOD	8,022	6,657

d) Per Share Amounts

(\$000s except per share amounts)	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
Net loss from continuing operations	(602)	(606)
Net income from discontinued operations	-	18
Net loss for the period	(602)	(588)
Weighted average number of shares - basic and diluted	64,752,604	25,789,280
Basic and diluted net loss per share - continuing operations	(0.01)	(0.02)
Basic and diluted net loss per share - discontinued operations	-	-
Basic and diluted net loss per share	(0.01)	(0.02)

At March 31, 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:

(\$000s)	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
Share-based compensation - options	590	186
Share-based compensation - performance warrants	775	51
TOTAL SHARE-BASED COMPENSATION	1,365	237

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 three months ended March 31, 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 three months ended March 31, 2017 was \$590,000 (three months ended March 31, 2016 – \$186,000).

The following table sets forth a reconciliation of the stock option plan activity through to March 31, 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 MARCH 31, 2017	6,475,000	0.92

There were no stock options exercised during the three months ended March 31, 2017 (year ended December 31, 2016 – nil) and 150,000 stock options were exercisable at March 31, 2017 (year ended December 31, 2016 – nil).

The range of exercise prices of the outstanding options and weighted average contractual life remaining as at March 31, 2017 were as follows:

Exercise Price Range	Wtd. Avg.	Number of options outstanding	Number of options exercisable
	Contractual Life Remaining		
\$0.85	4.21	3,722,310	100,000
\$1.00	4.31	2,642,690	50,000
\$1.00 - \$1.65	4.96	110,000	-
	4.26	6,475,000	150,000

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 three months ended	
	Mar. 31, 2017	Mar. 31, 2016
Weighted average fair value of options	0.78	1.06
Risk-free Interest rate (%)	1.08%	1.00%
Expected life (years)	5.0	5.0
Estimated volatility of underlying common shares (%)	56%	101%
Weighted average grant date share price	1.61	1.60
Forfeiture rate	-	-
Expected dividend yield (%)	-	-

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

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 three months ended March 31, 2017 was \$775,000 (three months ended March 31, 2016 - \$51,000).

The following table sets forth a reconciliation of performance warrant activity through to March 31, 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 MARCH 31, 2017	16,125,000	1.90

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

The range of exercise prices of the outstanding performance warrants and weighted average contractual life remaining as at March 31, 2017 were as follows:

Exercise Price Range	Wtd. Avg. Contractual Life Remaining	Number of warrants outstanding	Number of warrants exercisable
\$1.50	4.55	3,225,000	60,000
\$1.70	4.55	3,225,000	60,000
\$1.90	4.55	3,225,000	60,000
\$2.10	4.55	3,225,000	60,000
\$2.30	4.55	3,225,000	60,000
	4.55	16,125,000	300,000

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

16. DISCONTINUED OPERATIONS

On January 15, 2016, the Company completed a disposition of all its producing oil and natural gas properties located in the Fiske CGU for proceeds of \$2.5 million after closing adjustments (NOTE 9). The comparative consolidated statement of net loss and comprehensive loss has been presented to show the discontinued operation separately from continuing operations.

(\$000s)	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
Petroleum and natural gas sales	-	31
Royalties	-	(2)
	-	29
Operating expense	-	11
INCOME FROM DISCONTINUED OPERATIONS	-	18

During the three months ended March 31, 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.

17. COMMITMENTS

Future minimum payments under operating leases and pipeline transportation agreements as at March 31, 2017 are as follows:

	2017	2018	2019	2020	2021	Therafter	Total
Operating leases	180,579	329,432	497,523	596,984	164,145	-	1,768,663
Pipeline transportation	42,264	11,689	-	-	-	-	53,953
Total annual commitments	222,843	341,121	497,523	596,984	164,145	-	1,822,616

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 \$173,000 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.

18. 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 March 31, 2017:

(\$000s)	Fair value through profit & loss	Loans and receivables	Financial liabilities	Total carrying value
Assets				
Cash and cash equivalents (level 1)	-	11,089	-	11,089
Trade and other receivables (level 1)	-	3,348	-	3,348
Deposits (level 1)	-	9,084	-	9,084
Derivative contract assets (level 2)	206	-	-	206
	206	23,521	-	23,727
Liabilities				
Trade and other payables (level 1)	-	-	9,497	9,497
	-	-	9,497	9,497

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 economically 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 March 31, 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)
Apr. 2017 - Sep. 2017	Fixed price swap	300	72.25	206	-
DERIVATIVE ASSETS				206	-

(1) Nymex WTI monthly average in \$CAD.

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

(\$000s)	For the three months ended Mar. 31, 2017	Mar. 31, 2016
Realized gain on financial derivative contracts	-	-
Unrealized gain on financial derivative contracts	206	-
GAIN ON FINANCIAL DERIVATIVE CONTRACTS	206	-

At March 31, 2017, the fair value of the financial derivative contract was a current asset position of \$206,000 resulting in an unrealized gain of \$206,000. Assuming all other variables remain constant, a \$5.00 USD increase in WTI would result in a \$348,000 decrease in the unrealized gain and a \$5.00 USD decrease in WTI would result in a \$348,000 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 March 31, 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 March 31, 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 \$9.5 million (year ended December 31, 2016 - \$9.9 million). All financial liabilities have contractual maturities of less than one year.

19. 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	As at
	Mar. 31, 2017	Dec. 31, 2016
Shareholders' capital	62,157	61,394
Net debt (excluding derivative assets)	14,422	23,269
CAPITAL BASE	76,579	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 positive 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 March 31, 2017, the Company had a net debt surplus \$14.4 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 March 31, 2017 the Company is in compliance with all covenants.



20. SUPPLEMENTAL INFORMATION

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

(\$000s)	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
CHANGES IN NON-CASH WORKING CAPITAL:		
Trade and other receivables (NOTE 5)	(1,426)	128
Prepays and deposits (NOTE 6)	(179)	(1,800)
Trade and other payables (NOTE 7)	(364)	(56)
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	(1,969)	(1,728)
CHANGES IN NON-CASH WORKING CAPITAL RELATED TO:		
Operating activities	(1,945)	29
Investing activities	(24)	(1,850)
Discontinued operations	-	93
TOTAL CHANGES IN NON-CASH WORKING CAPITAL	(1,969)	(1,728)

In the "Operating Activities" line in the consolidated statement of cash flows, non-cash deferred lease expense of \$65,000 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 17).

The following tables present the composition of cash flows from discontinued operations:

Discontinued Operating Activities

	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
CASH FLOW FROM DISCONTINUED OPERATIONS		
Net income from discontinued operations	-	18
Change in non-cash working capital	-	93
CASH FLOW FROM DISCONTINUED OPERATIONS	-	111

Discontinued Investing Activities

	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
CASH FLOW FROM DISCONTINUED INVESTING ACTIVITIES		
Disposal of property, plant and equipment	-	2,486
Disposal of exploration and evaluation assets	451	-
CASH FLOW FROM DISCONTINUED INVESTING ACTIVITIES	451	2,486

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

(\$000s)	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
Crude oil	5,900	31
Natural gas liquids	32	-
Natural gas	204	-
Reclassified to income from discontinued operations	-	(31)
TOTAL PETROLEUM AND NATURAL GAS SALES	6,136	-

21. RELATED PARTY DISCLOSURES

a) Key Management Personnel

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

(\$000s)	For the three months ended	
	Mar. 31, 2017	Mar. 31, 2016
Salaries and benefits	333	123
Consulting fees	-	30
Share-based compensation benefit	1,046	226
TOTAL KEY MANAGEMENT COMPENSATION	1,379	379

b) Other Related Party Transactions

The Company incurred a total of \$94,000 (three months ended March 31, 2016 -\$25,000) for legal services provided by a law firm where the Corporate Secretary is a partner of this law firm. As at March 31, 2017, \$17,000 in fees for these legal services are included in accounts payable (three months ended March 31, 2016 - nil). In the comparative period ended March 31, 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.

22. SUBSEQUENT EVENTS

On May 1, 2017, the irrevocable letter of credit in favor of the Alberta Energy Regulator was reduced from \$9.0 million to \$4.2 million as a result of an increase in the Company's licensee liability ratio along with a reduction in deposits and an increase in cash and cash equivalents of \$4.8 million.