# THIRD QUARTER REPORT

# AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

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| **FINANCIAL AND OPERATIONAL HIGHLIGHTS** | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| **FINANCIAL** | | | | | | |
| Revenue, before royalties and financial instruments | **45,015** | 61,136 | -26% | **136,529** | 160,295 | -15% |
| Funds from operations[1] | **16,601** | 31,984 | -48% | **45,282** | 86,069 | -47% |
| Basic ($/ common share)[1] | **0.10** | 0.25 | -60% | **0.30** | 0.72 | -58% |
| Diluted ($/ common share)[1] | **0.10** | 0.25 | -60% | **0.30** | 0.70 | -57% |
| Profit (loss) and comprehensive income (loss) | **(22,135)** | 1,185 | - | **(46,066)** | 9,372 | - |
| Basic ($/ common share) | **(0.13)** | 0.01 | - | **(0.31)** | 0.08 | - |
| Diluted ($/ common share) | **(0.13)** | 0.01 | - | **(0.31)** | 0.08 | - |
| Total capital expenditures, net of dispositions | **34,316** | 246,942 | -86% | **453,921** | 324,434 | 40% |
| Total assets | **1,365,007** | 820,241 | 66% | **1,365,007** | 820,241 | 66% |
| Bank debt, net of working capital | **182,257** | 37,219 | 390% | **182,257** | 37,219 | 390% |
| Shareholders' equity | **939,644** | 614,384 | 53% | **939,644** | 614,384 | 53% |
| Weighted average shares outstanding (000's) | | | | | | |
| Basic | **167,935** | 126,681 | 33% | **150,185** | 120,100 | 25% |
| Diluted | **168,706** | 129,033 | 31% | **151,236** | 122,373 | 24% |
| **OPERATIONS** | | | | | | |
| Average daily production | | | | | | |
| Oil (bbls/d) | **4,803** | 3,913 | 23% | **5,059** | 2,982 | 70% |
| NGLs (bbls/d) | **1,685** | 1,173 | 44% | **1,520** | 886 | 72% |
| Gas (mcf/d) | **73,243** | 52,713 | 39% | **68,929** | 47,662 | 45% |
| Combined (BOE/d) | **18,695** | 13,872 | 35% | **18,067** | 11,812 | 53% |
| Production per million common shares (BOE/d)[1] | **111** | 110 | 1% | **120** | 98 | 22% |
| Average realized prices, after financial instruments | | | | | | |
| Oil ($/bbl) | **52.15** | 89.82 | -42% | **52.61** | 91.58 | -43% |
| NGLs ($/bbl) | **19.28** | 62.62 | -69% | **27.64** | 64.56 | -57% |
| Gas ($/mcf) | **2.70** | 4.43 | -39% | **2.85** | 5.14 | -45% |
| Operating netbacks[1] ($/BOE) | | | | | | |
| Oil and gas revenue | **26.17** | 47.91 | -45% | **27.68** | 49.71 | -44% |
| Realized gain (loss) on financial instruments | **(0.46)** | (0.42) | 10% | **0.26** | (0.99) | - |
| Average realized price, after financial instruments | **25.71** | 47.49 | -46% | **27.94** | 48.72 | -43% |
| Royalties | **(2.40)** | (7.24) | -67% | **(2.84)** | (6.80) | -58% |
| Production expense | **(10.03)** | (11.82) | -15% | **(11.78)** | (12.14) | -3% |
| Transportation expense | **(1.76)** | (2.62) | -33% | **(2.47)** | (2.38) | 4% |
| Operating netback[1] | **11.52** | 25.81 | -55% | **10.85** | 27.40 | -60% |
| Drilling activity | | | | | | |
| Total wells | **4** | 11 | -64% | **11** | 27 | -59% |
| Working interest wells | **4.0** | 11.0 | -64% | **10.1** | 23.5 | -57% |
| Success rate on working interest wells | **100%** | 100% | 0% | **100%** | 100% | 0% |
| Undeveloped land | | | | | | |
| Gross acres | **666,620** | 416,412 | 60% | **666,620** | 416,412 | 60% |
| Net acres | **537,318** | 274,188 | 96% | **537,318** | 274,188 | 96% |

(1) Refer to advisory regarding non-GAAP measures.

## MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. ("Kelt" or the "Company") is pleased to report its third quarter interim results to shareholders for the three months ended September 30, 2015.

Average production for the three months ended September 30, 2015 was 18,695 BOE per day, up 35% from average production of 13,872 BOE per day during the third quarter of 2014. On a production per share basis, third quarter 2015 production was up 1% compared to the same period in 2014. Kelt had production capability of approximately 21,800 BOE per day during the third quarter of 2015, however, production was constrained due to third party pipeline restrictions, facility downtime and discount gas price markets that resulted in an average of approximately 3,200 BOE per day of production downtime during the quarter. The Company believes that many of the third party pipeline constraints plaguing our industry in the past year will be remedied in the fourth quarter of 2015. In addition, in order to further strengthen access to alternative markets, Kelt has entered into new transportation agreements on the Alliance pipeline, tapping into Chicago priced gas markets effective December 1, 2015.

For the three months ended September 30, 2015, revenue, before royalties and financial instruments was $45.0 million, funds from operations was $16.6 million ($0.10 per share, diluted) and the net loss was $22.1 million ($0.13 per share, diluted). Production expense averaged $10.03 per BOE during the quarter ended September 30, 2015, down 26% from $13.58 per BOE reported during the second quarter ended June 30, 2015, and down 15% from $11.82 per BOE during the third ended September 30, 2014. During the current quarter, the Company began to realize the benefit of its operational initiatives and previous expenditures to construct and acquire strategic infrastructure, resulting in a significant reduction in per unit production expenses. The Company has activated water injection facilities in its core operating areas, reducing high trucking and salt water disposal costs. In addition, initial integration costs associated with corporate acquisitions, including the acquisition of Artek Exploration Ltd. during the second quarter of 2015 and the acquisition of Capio Exploration Ltd. during the third quarter of 2014, have been eliminated. In addition, Kelt has streamlined certain processes after taking over operatorship of the newly acquired properties.

At September 30, 2015, bank debt, net of working capital was $182.3 million representing 61% of its $300.0 million bank credit facility. The Company has substantially completed the interim review of its credit facility with its lending syndicate and expects to finalize the terms in mid-November. The Company expects that the total credit facility commitment will remain unchanged at $300.0 million, with an annual revolving period expiring on April 30, 2016. There are no expected changes to covenants or applicable margins on borrowing costs. Current availability under the credit facility is expected to be $275.0 million, with additional funds available up to the total credit facility commitment of $300.0 million subject to approval of the lending syndicate. Bank debt, net of working capital, at the end of 2016 is forecasted to be $197.0 million, leaving the Company with sufficient unused borrowing capacity and providing financial flexibility.

Net capital expenditures incurred during the third quarter were $34.3 million, of which $27.1 million was for drilling and completing wells.

Kelt had an active drilling program in both British Columbia and Alberta, drilling 4 gross (4.0 net) wells during the third quarter. At Fireweed, B.C., the Company drilled and completed a well in the Montney formation. During the operation, Kelt experienced difficulty getting the liner to bottom resulting in only stimulating two-thirds of the well. However, the Company is encouraged with the test results, as on a relative stimulated basis, it appears to be similar to previously drilled Montney wells completed in the area using slick water fractures. At Inga, B.C., Kelt drilled a well in the Doig formation that is awaiting completion with 41-stage fractures planned.

In addition, the Company drilled and completed two wells at Pouce Coupe, Alberta, in the Gordondale Montney "B" oil pool. One of these wells has been drilled in a second unit within the middle Montney zone and depending on results could double Kelt's well inventory on its lands within the oil pool. During the third quarter, Kelt also completed three wells in Alberta that were previously drilled in the first quarter.

Kelt continues to be active at Crown land sales where in recent months it has assembled a significant land position on a new Montney play in the Progress area of Alberta. The Company has an interest in 24,480 gross acres (38 gross sections) and 15,360 net acres (24 net sections) on the play. During the fourth quarter of 2014, Kelt, together with a 50% partner, drilled a well in the Progress area targeting the Montney located at 15-13-078-09W6. Kelt was encouraged with the results of the well test upon completion and expects to put this well on production before the end of November 2015. Crown land sales in Alberta have experienced a precipitous drop in prices paid per acre and Kelt expects to continue to take advantage by acquiring new lands in its core operating areas at these lower prices.

Kelt's Board of Directors has approved a capital expenditure budget for 2016 in the amount $110.0 million. The Company expects to spend $75.0 million on drilling and completing wells, $22.0 million on facilities, equipment and pipelines, and $13.0 million on land, seismic and property acquisitions.

Kelt expects production in 2016 to average approximately 22,000 BOE per day, an increase of 16% from estimated production of 19,000 BOE per day in 2015. Production in 2016 is expected to be weighted 36% to oil and NGLs, and 64% to gas; however, operating income is expected to be derived 77% from oil and NGLs production, and 23% from gas production.

The Company's average commodity price assumptions for 2016 are US$56.00 (US$51.00 in 2015) per barrel for WTI oil, US$2.95 (US$2.70 in 2015) per MMBTU for NYMEX natural gas, $2.95 ($2.60 in 2015) per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US$0.763 (US$0.784 in 2015).

Production expense for 2016 is estimated to be $10.60 per BOE and transportation expense is estimated to be $2.17 per BOE. On a combined basis production and transportation expense in 2016 is estimated to be $12.77 per BOE compared to actual expenses of $15.59 per BOE for the six months ended June 30, 2015, prior to the Company's operational initiatives and strategic infrastructure expenditures that were undertaken to reduce production and transportation expenses. The reduction in unit expenses of $2.82 per BOE annualized using 2016 estimated average production of 22,000 BOE per day results in $22.7 million in lower aggregate annualized expenses.

After giving effect to the aforementioned production estimates, commodity price assumptions, and estimated capital expenditures, funds from operations for 2016 is forecasted to be approximately $110.0 million or $0.65 per common share, diluted. This represents a 62% increase (48% per share increase) to estimated 2015 funds from operations. Kelt estimates that the Company's bank indebtedness, net of working capital, will be approximately $197.0 million as at December 31, 2016 or 66% of its expected total credit facility commitment.

In light of the current energy business environment with much lower oil and gas prices, Kelt has capitalized on acquisition opportunities, taken steps to reduce costs and has positioned itself financially to create sufficient financial flexibility to carry out its operations during the remainder of the year and throughout 2016. Management is excited about the Company's prospects and looks forward to updating shareholders with 2015 fourth quarter and annual results in March 2016.

On behalf of the Board of Directors,

*[signed]*

David J. Wilson
President and Chief Executive Officer
November 9, 2015

# MANAGEMENT'S DISCUSSION & ANALYSIS

## INTRODUCTION

**Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in west central Alberta and northeastern British Columbia. The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 as 1705972 Alberta Ltd. and was inactive until February 26, 2013. On October 19, 2012, Articles of Amendment were filed to change the name of the Company to Kelt Exploration Ltd. Kelt Exploration (LNG) Ltd. ("Kelt LNG") is a wholly-owned subsidiary of the Company. Kelt LNG's assets are located in the province of British Columbia. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "KEL". The head office of Kelt is located at Suite 300, 311 – 6th Avenue S.W., Calgary, Alberta T2P 3H2.**

Additional information relating to Kelt can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis ("MD&A") is dated November 9, 2015 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three and nine months ended September 30, 2015 and its audited annual financial statements and MD&A as at and for the year ended December 31, 2014. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook – Accounting* ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the condensed consolidated interim financial statements for issue on November 9, 2015.

### ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the following: the anticipated continued reduction in production and transportation expenses resulting from operational initiatives and expenditures on infrastructure; the expectation that new firm service gas transportation contracts will alleviate production disruptions and discounted realized gas prices; the anticipated reduction in trucking costs at Karr upon completion of construction, by Pembina Pipeline Corp., of the Karr oil pipeline lateral which is expected to be in service by the second quarter of 2016; the expected outcome of the semi-annual review of the borrowing base available under Kelt's Credit Facility (defined herein); and the Company's expected future financial position and operating results, as well as the amount and timing of future development capital expenditures. Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Actual reserves may be greater than or less than the estimates provided herein.

Although Kelt believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Kelt cannot give any assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; failure to obtain necessary regulatory approvals for planned operations; health, safety and environmental risks; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; volatility of commodity prices, currency exchange rate fluctuations; imprecision of reserve estimates; and competition from other explorers) as well as general economic conditions, stock market volatility; and the ability to access sufficient capital. We caution that the foregoing list of risks and uncertainties is not exhaustive.

In addition, the reader is cautioned that historical results are not necessarily indicative of future performance. The forward-looking statements contained herein are made as of the date hereof and the Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise unless expressly required by applicable securities laws.

Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

**NON-GAAP MEASURES**

This document contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. As these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

"Operating income" is calculated by deducting royalties, production expenses and transportation expenses from oil and gas revenue, after realized gains or losses on financial instruments. The Company refers to operating income expressed per unit of production as an "Operating netback". "Funds from operations" is calculated by adding back transaction costs associated with acquisitions and dispositions, settlement of decommissioning obligations and the change in non-cash operating working capital to cash provided by operating activities. Funds from operations per common share is calculated on a consistent basis with profit (loss) per common share, using basic and diluted weighted average common shares as determined in accordance with GAAP. Funds from operations and operating income or netbacks are used by Kelt as key measures of performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, profit or other measures of financial performance calculated in accordance with GAAP.

The following table reconciles cash provided by operating activities to funds from operations:

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Cash provided by operating activities | **14,446** | 32,780 | -56% | **51,742** | 84,091 | -38% |
| Transaction costs | **13** | 185 | -93% | **2,409** | 230 | 947% |
| Settlement of decommissioning obligations | **69** | 146 | -53% | **232** | 146 | 59% |
| Change in non-cash working capital | **2,073** | (1,127) | - | **(9,101)** | 1,602 | - |
| Funds from operations | **16,601** | 31,984 | -48% | **45,282** | 86,069 | -47% |

The following table demonstrates the calculation of operating income derived from the individual financial statement line items in accordance with GAAP:

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Oil and gas sales | **45,015** | 61,136 | -26% | **136,529** | 160,295 | -15% |
| Realized gain (loss) on financial instruments | **(812)** | (536) | 51% | **1,269** | (3,196) | - |
| Royalties | **(4,140)** | (9,245) | -55% | **(14,011)** | (21,919) | -36% |
| Production expenses | **(17,247)** | (15,075) | 14% | **(58,103)** | (39,113) | 49% |
| Transportation expenses | **(3,029)** | (3,345) | -9% | **(12,235)** | (7,681) | 59% |
| Operating income | **19,787** | 32,935 | -40% | **53,449** | 88,386 | -40% |
| Production (mBOE) | **1,720** | 1,276 | 35% | **4,932** | 3,225 | 53% |
| Operating netback ($/BOE) | **11.52** | 25.81 | -55% | **10.85** | 27.40 | -60% |

“Production per common share” is calculated by dividing total production by the basic weighted average number of common shares outstanding, as determined in accordance with GAAP.

The Company discloses certain key debt ratios in the *Capital Resources and Liquidity* section of the MD&A, including a “debt to funds from operations ratio”, an “asset coverage ratio” and a “debt to equity ratio”, all of which, are non-GAAP financial measures. Management believes that these ratios provide investors with additional information to understand the Company’s capital structure and liquidity risk. In particular, the Company uses the “debt to trailing funds from operations ratio” as a benchmark on which management monitors the Company’s capital structure and short-term financing requirements. The “debt to trailing funds from operations ratio” is also indicative of the “debt to cash flow” calculation used to determine the applicable margin for a quarter under the Company’s Credit Facility agreement (though the calculation may not always be a precise match, it is representative). “Net debt” is calculated by adding (subtracting) the working capital deficiency (surplus) to (from) bank debt. “Asset coverage” is calculated as total assets (as determined in accordance with GAAP), divided by net debt (as defined herein). “Debt to equity” is calculated as net debt (as defined herein), divided by total shareholders’ equity (as determined in accordance with GAAP).

**OTHER MEASUREMENTS**

All dollar amounts are referenced in thousands of Canadian dollars, except when noted otherwise. Where amounts are expressed on a barrel of oil equivalent (“BOE”) basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel and sulphur volumes have been converted to oil equivalence at 0.6 long tons per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. References to oil in this discussion include crude oil and field condensate. References to natural gas liquids (“NGLs”) include pentane, butane, propane, and ethane. References to gas in this discussion include natural gas and sulphur.

**NEW ACCOUNTING POLICIES**

On April 16, 2015, Kelt completed the acquisition of Artek Exploration Ltd. (“Artek”) by way of a statutory plan of arrangement under the *Business Corporations Act* (Alberta), pursuant to which, Artek became a wholly-owned subsidiary of Kelt. Prior to the acquisition of Artek, Kelt did not have any subsidiaries. Artek changed its name to Kelt Exploration (LNG) Ltd. (“Kelt LNG”) on April 16, 2015. These interim financial statements as at and for the three and nine months ended September 30, 2015, include the consolidated accounts of Kelt and Kelt LNG. The Company has applied the principles of consolidation outlined in IFRS 10, whereby the financial statements of subsidiaries are prepared using uniform accounting policies and for the same reporting period as Kelt. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation.

**SIGNIFICANT JUDGMENTS AND ESTIMATES**

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in the consolidated interim financial statements are outlined in note 2 of the December 31, 2014 annual financial statements. Except as outlined below, there have been no significant changes in the Company’s significant judgments and estimates applied during the interim period ended September 30, 2015 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2014.

*Impairment of assets*

The Company reviewed each cash generating unit (“CGU”) for indicators of possible impairment as of September 30, 2015. As a result of the significant decrease in forecast oil and natural gas prices, an indication of potential impairment was identified for all CGUs. Recoverable amounts for the Company’s CGUs were estimated based on fair value less costs of disposal ("FVLCD") methodology, calculated using the present value of the CGUs' expected future cash flows (after-tax). The primary source of cash flow information was derived from a report on the Company's oil and gas reserves (the "2014 Sproule Report") which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2014. The 2014 Sproule Report was updated internally to reflect Sproule's revised price forecast as of September 30, 2015, and mechanically rolled forward to account for production during the first nine months of 2015. In addition, where sufficient information was available, reserves were adjusted based on internal estimates in respect of current period drilling activity, acquisitions or new information in 2015. The projected cash flows used in the FVLCD calculation reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on past experience, historical trends and Sproule's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at September 30, 2015 ranged from 9% to 12%, depending on the risks specific to the assets in the CGU. Based on the FVLCD calculation, the recoverable amount exceeded the carrying value for all CGUs, and accordingly, no impairment losses were recognized as at September 30, 2015.

Forecast future prices used in the impairment evaluation as at September 30, 2015, reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| *As at September 30, 2015* | 2015(1) | 2016 | 2017 | 2018 | 2019(2) |
|---|---|---|---|---|---|
| WTI Cushing Oklahoma (US$/bbl) | 46.00 | 55.00 | 70.00 | 75.00 | 80.00 |
| Canadian Light Sweet 40 API ($/bbl) | 55.68 | 64.87 | 75.76 | 83.82 | 89.41 |
| NYMEX Henry Hub (US$/mmbtu) | 2.75 | 3.00 | 3.50 | 4.00 | 4.50 |
| AECO-C Spot ($/mmbtu) | 2.92 | 3.10 | 3.32 | 3.91 | 4.49 |
| Exchange rate (CA$/US$) | 1.3158 | 1.2821 | 1.1765 | 1.1765 | 1.1765 |

(1) Forecast average price for three month period ended December 31, 2015
(2) Prices escalate at 1.5% thereafter

The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. Further decreases to commodity prices or increases to discount rates used would decrease the recoverable amounts of CGU's and result in impairment losses. If the discount rate applied to each CGU increased by 1%, the Company would have recognized an impairment of property, plant and equipment ("PP&E") of approximately $10.9 million and an impairment of goodwill of approximately $13.1 million. If forecast average commodity prices decreased by 5%, the Company would have recognized an impairment of PP&E of approximately $33.1 million and an impairment of goodwill of $18.2 million.

**DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures as defined in National Instrument 52-109 of the Canadian Securities Administrators, to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes to the Company's internal controls over financial reporting during the interim period from July 1, 2015 to September 30, 2015 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation relating to the effectiveness in future periods are subject to the risk that controls may become inadequate as a result of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

## GROWTH STRATEGY

The business plan of Kelt is to create sustainable and profitable growth as a participant in the oil and gas industry in Canada. Kelt seeks to identify and acquire strategic oil and gas properties where it believes further exploitation, development and exploration opportunities exist. From time to time, Kelt may acquire a corporate entity in order to accomplish its oil and gas property acquisition strategy. In addition, Kelt has implemented a full cycle exploration program, resulting in exploration and development drilling based on opportunities generated internally.

Kelt is optimistic about its future prospects. The Company is opportunity driven and is confident that it can grow its production base by building on its current inventory of development projects and by adding new exploration prospects. Kelt will endeavor to maintain a high quality product stream that on a historical basis receives a superior price with reasonably low production and transportation costs. In addition, the Company will focus its exploration efforts in areas of multi-zone hydrocarbon potential, primarily in west central Alberta and northeastern British Columbia. Kelt will continue to seek optimization of its asset base by building on its core properties and monetizing non-core assets.

## RESULTS OF OPERATIONS

### THIRD QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

- During the third quarter of 2015, corporate production averaged 18,695 BOE per day, up 35% from 13,872 BOE per day in the same quarter of 2014, and down 4% from 19,473 BOE in the second quarter of 2015. In the absence of third party pipeline restrictions and plant/facility downtime, which reduced average production by approximately 3,200 BOE per day, Kelt would have had capable production of approximately 21,800 BOE per day during the third quarter of 2015.
- The Company generated funds from operations in the amount of $16.6 million ($0.10 per common share, diluted) during the third quarter of 2015, up 19% from $14.7 million ($0.09 per common share, diluted) in the second quarter of 2015. Compared to the same quarter of 2014, funds from operations is down 48% from $32.0 million ($0.25 per common share, diluted), reflecting significantly lower realized oil and gas prices.
- Corporate royalty rates averaged 9.2% of revenue in the third quarter of 2015, down from 9.8% in the second quarter of 2015 and 15.1% in the third quarter of 2014.
- During the third quarter, the Company began to realize the benefit of its continued operational initiatives and previous expenditures on infrastructure, resulting in a significant reduction in production and transportation expenses. Specifically:
    - Production expense averaged $10.03 per BOE during the quarter ended September 30, 2015, a 26% decrease from $13.58 per BOE reported during the second quarter ended June 30, 2015, and a 15% decrease from $11.82 per BOE during the third quarter ended September 30, 2014; and
    - Transportation expense averaged $1.76 per BOE during the quarter ended September 30, 2015, a 38% decrease from $2.85 per BOE reported during the second quarter ended June 30, 2015, and a 33% decrease from $2.62 per BOE during the third quarter ended September 30, 2014.
- Kelt continued to maintain industry leading low general and administrative expenses, which on a per-unit basis, averaged $0.82 per BOE during the third quarter of 2015, despite facing significant production downtime.
- The Company's total capital expenditures amounted to $34.3 million during the third quarter of 2015. Of this total, $27.1 million was spent drilling and completing wells, $5.3 million was spent on infrastructure, and $1.9 million

was spent on land and acquisitions. Kelt drilled 4 (4.0 net) wells with a success rate of 100% during the three month period ended September 30, 2015, down from 11 (11.0 net) wells drilled during the three month period ended September 30, 2014. Excluding corporate acquisitions, the Company's level of capital spending decreased by 58% compared to $79.4 million of capital expenditures incurred in the same quarter of 2014.

- On July 7, 2015, the Company raised gross proceeds of $86.5 million pursuant to a bought deal public equity offering, issuing 9,775,000 common shares at a price of $8.85 per common share. Concurrently, certain directors and officers of the Company subscribed to purchase, pursuant to a non-brokered private placement, an additional 400,000 common shares at a price of $8.85 per common share, providing additional gross proceeds of $3.5 million. The proceeds were used to reduce bank indebtedness, to maintain financial flexibility and a strong balance sheet during this period of low commodity prices.

## REVENUE

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Average daily production: | | | | | | |
| Oil (bbls/d) | **4,803** | 3,913 | 23% | **5,059** | 2,982 | 70% |
| NGLs (bbls/d) | **1,685** | 1,173 | 44% | **1,520** | 886 | 72% |
| Gas (mcf/d) | **73,243** | 52,713 | 39% | **68,929** | 47,662 | 45% |
| Combined (BOE/d) | **18,695** | 13,872 | 35% | **18,067** | 11,812 | 53% |
| Average realized prices, before financial instruments: | | | | | | |
| Oil ($/bbl) | **53.20** | 91.48 | -42% | **52.77** | 95.32 | -45% |
| NGLs ($/bbl) | **19.28** | 62.04 | -69% | **23.22** | 65.18 | -64% |
| Gas ($/mcf) | **2.75** | 4.43 | -38% | **2.87** | 5.14 | -44% |
| Combined ($/BOE) | **26.17** | 47.91 | -45% | **27.68** | 49.71 | -44% |
| Average realized prices, after financial instruments: | | | | | | |
| Oil ($/bbl) | **52.15** | 89.82 | -42% | **52.61** | 91.58 | -43% |
| NGLs ($/bbl) | **19.28** | 62.62 | -69% | **27.64** | 64.56 | -57% |
| Gas ($/mcf) | **2.70** | 4.43 | -39% | **2.85** | 5.14 | -45% |
| Combined ($/BOE) | **25.71** | 47.49 | -46% | **27.94** | 48.72 | -43% |
| Revenue, before royalties and financial instruments: | | | | | | |
| Oil | **23,507** | 32,933 | -29% | **72,891** | 77,606 | -6% |
| NGLs | **2,988** | 6,695 | -55% | **9,638** | 15,769 | -39% |
| Gas | **18,520** | 21,508 | -14% | **54,000** | 66,920 | -19% |
| Total revenue, before royalties and financial instruments | **45,015** | 61,136 | -26% | **136,529** | 160,295 | -15% |

For the nine month period ended September 30, 2015, Kelt reported average production of 18,067 BOE per day, an increase of 53% compared to average production of 11,812 BOE per day during the same nine month period of 2014. The increase in production is due to the Company's robust drilling program during the second half of 2014 and first quarter of 2015, over which period, Kelt drilled 27 (24.6 net) wells. Kelt's drilling program was complemented by strategic acquisitions, most notably, the acquisition of Artek on April 16, 2015, which more than doubled Kelt's production at its Inga-Fireweed-Stoddart core area in northeastern British Columbia ("BC").

For the three month period ended September 30, 2015, corporate production averaged 18,695 BOE per day, a decrease of 4% from 19,473 BOE during the previous quarter ended June 30, 2015. The Company's production in northeastern BC and Grande Prairie was negatively impacted by third-party downtime and pipeline restrictions which reduced average production by approximately 3,200 BOE per day during the third quarter of 2015 and by 1,630 BOE per day during the second quarter of 2015. In addition, Kelt voluntarily elected to shut-in production on certain days where pipeline capacity issues resulted in low and in some instances, negative natural gas prices. In the absence of production downtime and voluntary shut-ins, the Company was capable of producing at approximately 21,800 BOE per day. The Company has secured additional firm service gas transportation contracts to alleviate the impact of the industry's pipeline capacity shortages to Kelt's production and realized prices, starting on December 1, 2015.

The Company earned revenue before royalties and financial instruments of $45.0 million during the third quarter of 2015, down 26% from the third quarter of 2014, despite increasing production by 35% over the same period. As a result of the significant decline in industry-wide oil and gas prices, the Company's combined average sales price decreased to $26.17 per BOE ($25.71 after financial instruments) during the three month period ended September 30, 2015, down 45% from $47.91 per BOE ($47.49 after financial instruments) during the previous three month period ended September 30, 2014.

Revenue before royalties and financial instruments was $136.5 million for the first nine months of 2015, a decrease of 15% compared to $160.3 million earned during the first nine months of 2014. The 44% decrease in the Company's combined average sales price more than offset the 53% increase in production volumes. During the nine month period ended September 30, 2015, production was weighted 36% to oil and NGLs compared to 33% in the same nine month period of 2014.

### BENCHMARK COMMODITY PRICES

The following table summarizes average historical benchmark commodity prices for the periods indicated:

| | **Q3 2015** | Q3 2014 | % change | **YTD 2015** | YTD 2014 | % change |
|---|---|---|---|---|---|---|
| WTI Cushing Oklahoma (US$/bbl)[1] | **46.43** | 97.17 | -52% | **51.00** | 99.60 | -49% |
| Average FX rate (CA$/US$)[1] | **1.3085** | 1.0888 | 20% | **1.2581** | 1.0943 | 15% |
| WTI Cushing Oklahoma (CA$/bbl)[2] | **60.71** | 105.76 | -43% | **64.08** | 108.99 | -41% |
| Canadian Light Sweet (CA$/bbl)[1][3] | **54.94** | 93.65 | -41% | **59.03** | 92.80 | -36% |
| As a % of CA$ WTI | **90%** | 89% | 2% | **92%** | 85% | 8% |
| Edmonton Pentane (CA$/bbl)[1] | **59.58** | 101.72 | -41% | **62.63** | 109.74 | -43% |
| As a % of CA$ WTI | **98%** | 96% | 2% | **98%** | 101% | -3% |
| Edmonton Butane (CA$/bbl)[1] | **30.60** | 66.40 | -54% | **36.92** | 69.83 | -47% |
| As a % of CA$ WTI | **50%** | 63% | -20% | **58%** | 64% | -10% |
| Edmonton Propane (CA$/bbl)[1] | **2.33** | 32.99 | -93% | **4.92** | 50.18 | -90% |
| As a % of CA$ WTI | **4%** | 31% | -88% | **8%** | 46% | -83% |
| NYMEX Henry Hub (US$/mmbtu)[4] | **2.77** | 4.07 | -32% | **2.80** | 4.51 | -38% |
| AECO 5A (CA$/GJ)[5] | **2.75** | 3.81 | -28% | **2.62** | 4.56 | -42% |
| NGX Station #2 Day Ahead Index (CA$/GJ)[6] | **1.71** | 3.54 | -52% | **1.91** | 4.22 | -55% |

(1) Source: Sproule Associates Limited
(2) Source: Sproule Associates Limited, Canadian dollar equivalent price WTI price is calculated based on monthly average US$WTI price and the monthly average CA$/US$ exchange rate
(3) The Edmonton Light Par price was discontinued as of May 1, 2014, and replaced by the Canadian Light Sweet crude blend which is traded daily on the Net Energy Index. Historical information is not available for the Canadian Light Sweet index for periods prior to May 1, 2014.
(4) Source: Canadian Gas Price Reporter (Henry Hub 3-Day Average Close)
(5) Source: Canadian Gas Price Reporter (NGX AB-NIT Same Day Index 5A)
(6) Source: Canadian Gas Price Reporter (NGX Spectra Station #2 Day Ahead Index)

### OIL OPERATIONS

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$/bbl)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Oil revenue | **53.20** | 91.48 | -42% | **52.77** | 95.32 | -45% |
| Realized loss on financial instruments | **(1.05)** | (1.66) | -37% | **(0.16)** | (3.74) | -96% |
| Average realized price, after financial instruments | **52.15** | 89.82 | -42% | **52.61** | 91.58 | -43% |
| Oil royalties | **(8.68)** | (18.57) | -53% | **(8.07)** | (17.73) | -54% |
| Revenue, after royalties and financial instruments | **43.47** | 71.25 | -39% | **44.54** | 73.85 | -40% |

During the three month period ended September 30, 2015, the Company realized an average price for oil sales of $53.20 per barrel, a decrease of 42% from $91.48 per barrel realized in the same three month period of 2014. Appreciation of the US dollar softened the impact of falling oil prices on the average oil price realized by the Company denominated in Canadian dollars. By comparison, the Canadian dollar equivalent WTI index oil price decreased 43% from $105.76 per barrel during the third quarter of 2014 to $60.71 per barrel during the third quarter of 2015. Kelt's realized oil price reflects a 13.2% discount to CA$WTI that narrowed from a discount of 14.2% in the comparative quarter of 2014.

For the nine month period ended September 30, 2015, Kelt's realized price for oil sales fell by 45% compared to a 41% decrease in the Canadian dollar equivalent WTI benchmark price. During the first nine months of 2015, 28% of Kelt's total oil volumes were derived from field condensate, up from 19% in the same period of 2014, as a result of the Artek acquisition and corresponding increase in production from the Company's condensate rich Inga-Fireweed core area in northeastern BC. On average, Kelt's realized price for field condensate carried an additional 5% quality discount compared to Kelt's realized price for crude oil.

Kelt entered into a forward foreign exchange contract fixing the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015. The exchange rate averaged $1.3085 during the three month period ended September 30, 2015, resulting in a realized loss of approximately $0.5 million or $1.05 per barrel of oil during the third quarter.

Oil royalties averaged 16.3% and 15.3%, respectively, during the three and nine month periods ended September 30, 2015. During the corresponding periods of the previous year, oil royalties averaged 20.3% and 18.6%. The decrease in the average royalty rate compared to the previous period reflects the decrease in oil prices as well as new oil production which qualifies for various royalty incentives.

**NGL OPERATIONS**

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$/bbl)* | **2015** | 2014 | % | **2015** | 2014 | % |
| NGL revenue | **19.28** | 62.04 | -69% | **23.22** | 65.18 | -64% |
| Realized gain (loss) on financial instruments | **-** | 0.58 | - | **4.42** | (0.62) | - |
| Average realized price, after financial instruments | **19.28** | 62.62 | -69% | **27.64** | 64.56 | -57% |
| NGL royalties | **(1.33)** | (8.51) | -84% | **(2.19)** | (9.32) | -77% |
| Revenue, after royalties and financial instruments | **17.95** | 54.11 | -67% | **25.45** | 55.24 | -54% |

During the three and nine month periods ended September 30, 2015, the Company realized an average price for NGL sales of $19.28 and $23.22 per barrel, respectively, a decrease of 69% and 64%, compared to the corresponding periods of the previous year. The decrease in the Company's average realized price reflects the sharp decline in market prices for all NGL products, noting that Edmonton benchmark prices for pentane, butane and propane fell by 43%, 47% and 90%, respectively, in the first nine months of 2015 compared to average benchmark prices in the first nine months of 2014. The market for propane and butane collapsed further in the third quarter, whereby Kelt's realized price was negative in some cases, after deducting marketing fees. Butane and propane volumes accounted for approximately 33% and 28%, respectively, of Kelt's total NGL sales volumes during the third quarter of 2015.

The impact of the unprecedented decline in propane prices was partially mitigated by unwinding the Company's OPIS-Conway propane derivative contract for cash proceeds of US$1.5 million (CA$1.8 million) in January 2015.

NGL royalties averaged 6.9% and 9.4%, respectively, during the three and nine month periods ended September 30, 2015. During the corresponding periods of the previous year, NGL royalties averaged 13.7% and 14.3%. NGL royalties are reduced by gas cost allowance credits allocated to NGLs production, which do not fluctuate with NGL prices.

### GAS OPERATIONS

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$/MCF)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Gas revenue | **2.75** | 4.43 | -38% | **2.87** | 5.14 | -44% |
| Realized loss on financial instruments | **(0.05)** | - | - | **(0.02)** | - | - |
| Average realized price, after financial instruments | **2.70** | 4.43 | -39% | **2.85** | 5.14 | -45% |
| Gas royalties | **(0.01)** | (0.34) | -97% | **(0.10)** | (0.40) | -75% |
| Revenue, after royalties and financial instruments | **2.69** | 4.09 | -34% | **2.75** | 4.74 | -42% |

The Company realized an average gas sales price of $2.75 per MCF and $2.87 per MCF during the three and nine month periods ended September 30, 2015, respectively, a decrease of 38% and 44% relative to the Company's realized gas sales price in the corresponding periods of the previous year. By comparison, the AECO 5A gas index price averaged $2.75 per GJ and $2.62 per GJ during the three and nine month periods ended September 30, 2015, respectively, a decrease of 28% and 42% compared to the average AECO 5A reference price in the corresponding periods of the previous year. Kelt generally receives a premium to the AECO gas index price due to the higher heat content of its gas sales, however, during the second and third quarters of 2015, Kelt accessed non-AECO based contracts as a result of pipeline capacity constraints in northeastern BC and west-central Alberta, which reduced the net price paid by purchasers.

Gas royalties averaged 0.5% and 3.6%, respectively, during the three and nine month periods ended September 30, 2015. During the corresponding periods of the previous year, gas royalties averaged 7.6% and 7.8%. Lower gas royalties reflect the significant decrease in gas prices as well as gas cost allowance credits which do not fluctuate with gas prices.

### PRODUCTION EXPENSES

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Production expense | **17,247** | 15,075 | 14% | **58,103** | 39,113 | 49% |
| $ per BOE | **10.03** | 11.82 | -15% | **11.78** | 12.14 | -3% |

Production expense averaged $10.03 per BOE during the quarter ended September 30, 2015, down 26% from $13.58 per BOE reported during the second quarter ended June 30, 2015, and down 15% from $11.82 per BOE during the third quarter ended September 30, 2014. During the current quarter, the Company began to realize the benefit of its operational initiatives and previous expenditures to construct and acquire strategic infrastructure, resulting in a significant reduction in per unit production expenses. The Company has activated water injection facilities in its core operating areas, reducing high trucking and salt water disposal costs. In addition, initial integration costs associated with corporate acquisitions, including the acquisition of Artek during the second quarter of 2015 and the acquisition of Capio Exploration Ltd. ("Capio") during the third quarter of 2014, have been eliminated. In addition, Kelt has streamlined certain processes after taking over operatorship of the properties.

### TRANSPORTATION EXPENSES

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Transportation expense | **3,029** | 3,345 | -9% | **12,235** | 7,681 | 59% |
| $ per BOE | **1.76** | 2.62 | -33% | **2.47** | 2.38 | 4% |

Transportation expense averaged $1.76 per BOE during the quarter ended September 30, 2015, down 33% from $2.62 per BOE during the third quarter ended September 30, 2014. Year-to-date, transportation expenses are relatively flat at $2.47 per BOE and $2.38 per BOE over the nine month periods ended September 30, 2015 and 2014, respectively. Kelt incurred higher trucking costs in previous periods due to long wait times.

**FINANCING EXPENSES**

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Interest and fees on bank debt | **1,776** | 113 | 1472% | **4,627** | 394 | 1074% |
| Accretion of decommissioning obligations | **784** | 443 | 77% | **2,033** | 1,232 | 65% |
| Financing expense | **2,560** | 556 | 360% | **6,660** | 1,626 | 310% |
| Average bank debt outstanding | **157,380** | - | - | **147,901** | - | |
| Average interest rate on indebtedness | **3.7%** | - | - | **3.5%** | - | |
| Interest and fees on bank debt ($/BOE) | **1.03** | 0.09 | 1044% | **0.94** | 0.12 | 683% |

The Company has a $300.0 million revolving committed term credit facility (the “Credit Facility”) with a syndicate of financial institutions. During the three and nine month periods ended September 30, 2015, amounts drawn under the Credit Facility were primarily in the form of bankers’ acceptances (“BAs”). Kelt’s average interest rate increased to 3.7% during the third quarter, up from 3.4% during the second quarter of 2015, as higher stamping fees on BAs more than offset the decrease in market interest rates. Under the Credit Facility, BA stamping fees fluctuate based on a pricing grid and range from 2.0% to 3.5%, depending upon the Company’s debt to cash flow ratio of between less than one and one tenth times to greater than three times. Fees on bank debt include commitment fees and standby charges on the undrawn facility.

Accretion expense is a measure of the increase in the present value of the decommissioning obligation due to the passage of time. The increase in accretion expense is due to a significant increase in the carrying value of decommissioning obligations resulting from acquisitions and drilling activity.

**GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES**

The following table summarizes significant components of the Company’s G&A expenses:

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Salaries and benefits | **1,534** | 1,079 | 42% | **4,160** | 2,847 | 46% |
| Other G&A expenses | **951** | 792 | 20% | **2,596** | 2,151 | 21% |
| Gross G&A expenses | **2,485** | 1,871 | 33% | **6,756** | 4,998 | 35% |
| Overhead recoveries | **(1,075)** | (940) | 14% | **(3,004)** | (2,145) | 40% |
| Total G&A expenses, net of recoveries | **1,410** | 931 | 51% | **3,752** | 2,853 | 32% |
| Net G&A ($ per BOE) | **0.82** | 0.73 | 12% | **0.76** | 0.88 | -14% |

In conjunction with the Company’s significant growth, Kelt hired several new employees resulting in an increase in salaries, benefits and other overhead costs, including the cost of additional office space to accommodate new staff. The impact of the increase in gross G&A expenses is partially offset by higher overhead recoveries in each period of 2015. Although capital overhead recoveries decreased in the third quarter of 2015 due to lower capital spending compared to the same quarter of 2014, Kelt now operates a higher proportion of its assets resulting in a net increase in total overhead recoveries in 2015.

Net G&A expenses averaged $0.82 per BOE and $0.76 per BOE during the three and nine month periods ended September 30, 2015, respectively. Per unit G&A expenses decreased by 14% period over period, reflecting the significant increase in production combined with management’s continued efforts to maintain a low cost structure.

## SHARE BASED COMPENSATION ("SBC")

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Stock options | **995** | 1,107 | -10% | **3,330** | 2,935 | 13% |
| Restricted share units ("RSUs") | **911** | 1,334 | -32% | **2,956** | 3,572 | -17% |
| Total SBC expense | **1,906** | 2,441 | -22% | **6,286** | 6,507 | -3% |
| $ per BOE | **1.11** | 1.91 | -42% | **1.27** | 2.02 | -37% |

Total SBC expense decreased in each of the three and nine month periods ended September 30, 2015, as the fair value of new stock options and RSUs granted is lower than previous periods. The significant decrease in SBC expense on a per unit basis reflects management's efforts to provide long term incentives to employees and grow production, while minimizing the dilutive impact to shareholders. As at September 30, 2015, stock options and RSUs outstanding represent 3.8% of total shares outstanding, down from 4.5% of total shares outstanding at September 30, 2014.

## DEPLETION AND DEPRECIATION

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Depletion of development and production assets | **37,140** | 26,132 | 42% | **102,462** | 57,858 | 77% |
| Depreciation of corporate assets | **261** | 131 | 99% | **677** | 260 | 160% |
| Total depletion and depreciation | **37,401** | 26,263 | 42% | **103,139** | 58,118 | 77% |
| Depletion and depreciation ($/BOE) | **21.75** | 20.58 | 6% | **20.91** | 18.02 | 16% |

The Company calculates depletion of development and production assets based on production relative to total proved reserves, for each depletion unit. The increase in the absolute level of depletion expense is due to an increase in the carrying value of assets subject to depletion, resulting from capital expenditures and acquisitions. The increase in depletion and depreciation expenses per unit of production reflects the addition of proved reserves at higher than historical capital costs, primarily due to the development and acquisition of oil/liquids weighted assets that receive higher operating netbacks than gas weighted assets.

## EXPLORATION AND EVALUATION

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Expired mineral leases | **1,259** | 62 | 1931% | **2,683** | 248 | 982% |
| $ per BOE | **0.73** | 0.05 | 1360% | **0.54** | 0.08 | 575% |

Exploration and evaluation expenses relate to the expiry of non-core land holdings as the Company focuses on the development of its core areas.

## OTHER INCOME AND EXPENSES

*Other income*

In the second quarter of 2015, Kelt filed an amendment to its December 31, 2013 tax return to claim Scientific Research and Experimental Development ("SR&ED") expenditures. As the result of the SR&ED claim, the Company earned refundable investment tax credits in Alberta of $0.2 million, net of fees.

During periods in which the Company has a cash surplus, cash on hand may be invested in short term guaranteed investment certificates or held on deposit in order to earn interest income. Kelt earned interest income of $0.1 million and $0.9 million during the three and nine month periods ended September 30, 2014. No interest was earned during the nine month period ended September 30, 2015.

*Transaction costs*

During the first nine months of 2015, the Company recognized transaction costs of approximately $2.4 million as an expense. The transaction costs relate primarily to the acquisition of Artek (the "Acquiree") which closed on April 16, 2015. Of the total $2.4 million expensed by Kelt (the "Acquirer"), approximately $2.0 million of expenses were physically incurred and paid by Artek prior to completion of the arrangement. In accordance with IFRS 3, transaction costs incurred by an Acquiree that are directly required as a result of the arrangement with the Acquirer, must be recognized as an expense by the Acquirer, regardless of which entity physically incurs the expenses. As such, transaction costs incurred and paid by Artek prior to April 16, 2015, including the fairness opinion, severance for key management under contract, and other legal, audit and advisory fees have been presented as an expense in Kelt's consolidated financial statements as at and for the three and nine month periods ended September 30, 2015.

*Premium on flow-through shares*

During the first quarter of 2015, the Company issued 3,881,400 flow-through shares at a price of $8.60 per flow-through share providing gross proceeds of $33.4 million. The implied premium on the flow-through shares was determined to be $2.9 million or $0.74 per flow-through share. As of September 30, 2015, the Company had incurred $28.0 million of qualifying expenditures, leaving $5.4 million of Canadian development expenses to be incurred prior to December 31, 2015. The deferred premium was drawn down in proportion to the qualifying expenditures incurred in the period resulting in $1.2 million and $2.4 million being recognized as income during the three and nine month periods ended September 30, 2015, respectively. The remaining deferred premium of $0.5 million is presented as a current liability in the Statement of Financial Position as at September 30, 2015.

On December 18, 2014, the Company issued 182,000 flow-through shares at a price of $11.00 per flow-through share. The implied premium on the flow-through shares was determined to be $0.7 million or $3.80 per flow-through share. The Company incurred the full commitment of $2.0 million qualifying Canadian exploration expenses during the first quarter of 2015 and the premium of $0.7 million was recognized as income in the first quarter.

*Gains and losses on derivative financial instruments*

The table below summarizes realized and unrealized gains (losses) on risk management contracts:

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Realized gain (loss) | **(812)** | (536) | 51% | **1,269** | (3,196) | - |
| Unrealized gain (loss) | **(1,762)** | 2,468 | - | **(3,435)** | 622 | - |
| Gain (loss) on derivative financial instruments | **(2,574)** | 1,932 | - | **(2,166)** | (2,574) | -16% |
| $ per BOE | **(1.50)** | 1.51 | - | **(0.44)** | (0.80) | -45% |

The Company entered into a risk management contract to fix the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015. The exchange rate averaged $1.3085 during the third quarter and $1.2683 from March to September, resulting in a realized loss of $0.5 million for the third quarter or a net realized loss on the foreign exchange contract of $0.2 million year-to-date. In addition, the Company has an interest rate swap fixing the Canadian Dollar Offered Rate ("CDOR") at 0.925% on a notional $100.0 million per month from July 2015 to June 2017. The CDOR rate averaged 0.817% during the quarter ended September 30, 2015, resulting in a nominal realized loss of $0.03 million during the quarter. Kelt has also contracted to fix the NYMEX-AECO basis differential at US$0.625/mmbtu on 30,000 mmbtu/d of natural gas from August to December of 2015. The NYMEX-AECO basis differential averaged US$0.491/mmbtu from August to September, resulting in a realized loss of $0.3 million in the third quarter.

Kelt realized a net gain of $1.3 million over the nine month period ended September 30, 2015, as the aggregate realized loss on the aforementioned contracts was more than offset by cash proceeds of US$1.5 million (CA$1.8 million) earned from unwinding a financial derivative contract in January 2015. The contract fixed the price of OPIS-Conway propane at US$40.95 per barrel on 250 barrels per day from March to December 2015.

Fair value accounting for derivative financial instruments may cause significant fluctuations in the reported amounts of derivative financial instrument assets and liabilities as at the Statement of Financial Position date and the resultant magnitude of unrealized gains and losses. Additional information with respect to the Company's risk management contracts that give rise to gains or losses on financial instruments is provided under the heading of *Derivative Financial Instruments*.

## INCOME TAXES

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Current income tax expense | **-** | - | - | **-** | - | - |
| Deferred income tax expense (recovery) | **(3,804)** | 5,281 | - | **(7,450)** | 15,195 | - |
| Total income tax expense (recovery) | **(3,804)** | 5,281 | - | **(7,450)** | 15,195 | - |

The Company recognized a deferred tax recovery of $3.8 million and $7.5 million, respectively, during the three and nine months periods ended September 30, 2015. A detailed analysis of the provision for deferred income taxes is included in note 12 of the consolidated interim financial statements.

In June 2015, the Alberta government increased the general corporate tax rate from 10% to 12%, effective July 1, 2015. For corporations, such as Kelt, with a tax year spanning July 1, 2015, the two tax rates will be pro-rated resulting in an effective tax rate of 11% for Alberta in 2015, based on Kelt's December 31, 2015 year end. The increase in Alberta's corporate tax rate resulted in an increase in Kelt's deferred tax liability and a reduction of the deferred tax recovery by approximately $4.4 million for the nine month period ended September 30, 2015.

During the second quarter of 2015, Kelt filed an amendment to its December 31, 2013 tax return to claim Scientific Research and Experimental Development ("SR&ED") expenditures. As the result of the SR&ED claim, Kelt earned $1.5 million of non-refundable federal investment tax credits, which can be applied against taxes payable in future periods. The impact of the SR&ED claim is reflected as a true-up adjustment in the rate reconciliation.

Kelt was not required to pay income taxes in the current or prior period as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of September 30, 2015 are estimated to be approximately $931.4 million (COGPE 29%, CDE 18%, CEE 9%, UCC 20%, SIC 2%, NCL 22%).

## PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Profit (loss) and comprehensive income (loss) | **(22,135)** | 1,185 | - | **(46,066)** | 9,372 | - |
| Weighted avg. shares outstanding, basic (000's) | **167,935** | 126,681 | 33% | **150,185** | 120,100 | 25% |
| Weighted avg. shares outstanding, diluted (000's) | **167,935** | 129,033 | 30% | **150,185** | 122,373 | 23% |
| $ per common share, basic | **(0.13)** | 0.01 | - | **(0.31)** | 0.08 | - |
| $ per common share, diluted | **(0.13)** | 0.01 | - | **(0.31)** | 0.08 | - |
| $ per BOE | **(12.87)** | 0.93 | - | **(9.34)** | 2.91 | - |

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for both the three and nine month periods ended September 30, 2015, the Company excluded the effect of stock options and RSUs as they were anti-dilutive. Therefore, the diluted weighted average is equal to the basic weighted average shares outstanding.

Kelt experienced significant growth over the past year, reporting an increase in total assets by 66% to $1.4 billion at September 30, 2015 compared to $820.2 million at September 30, 2014. Average daily production increased by 35% in the third quarter of 2015 compared to the same quarter of 2014 and by 53% from the same nine month period in 2014. In spite of achieving production growth with a higher oil and liquids weighting, the Company's total revenue, net of royalties, decreased by 21% for the three month period and by 11% for the nine month period, compared to the same periods last year, due to the industry-wide decline in commodity prices. The Company's growth resulted in higher total expenses, although Kelt is starting to realize a reduction in most expenses on a per unit basis. The decrease in revenue combined with an increase in total expenses resulted in a loss of $22.1 million and $46.1 million for the three and nine month periods ended September 30, 2015. Non-cash depletion and depreciation expense of $103.1 million for the first nine months of 2015, was a significant driver of the loss reported by Kelt, as the expense increased by $45.0 million compared to the previous nine month period of 2014 due to higher assets and production. In addition, the increase in Alberta's corporate tax rate from 10% to 12% added approximately $4.4 million to the loss during the nine month period ended September 30, 2015, by reducing Kelt's deferred tax recovery. The loss reported by Kelt for the nine month period ended September 30, 2015 is reduced by a bargain purchase gain of $17.9 million on the acquisition of Artek which closed on April 16, 2015.

**FUNDS FROM OPERATIONS**

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Funds from operations[1] | **16,601** | 31,984 | -48% | **45,282** | 86,069 | -47% |
| Weighted avg. shares outstanding, basic (000's) | **167,935** | 126,681 | 33% | **150,185** | 120,100 | 25% |
| Weighted avg. shares outstanding, diluted (000's) | **168,706** | 129,033 | 31% | **151,236** | 122,373 | 24% |
| $ per common share, basic[2] | **0.10** | 0.25 | -60% | **0.30** | 0.72 | -58% |
| $ per common share, diluted[2] | **0.10** | 0.25 | -60% | **0.30** | 0.70 | -57% |
| $ per BOE | **9.65** | 25.06 | -61% | **9.18** | 26.69 | -66% |

(1) Funds from operations is a non-GAAP measure which is calculated as cash provided by operating activities, before transaction costs, settlement of decommissioning obligations and changes in non-cash operating working capital.

(2) Funds from operations per common share is calculated on a consistent basis with profit (loss) per common share, using basic and diluted weighted average common shares as determined in accordance with GAAP.

The Company generated funds from operations in the amount of $16.6 million ($0.10 per common share, basic and diluted) during the third quarter of 2015, down from $32.0 million ($0.25 per common share, basic and diluted) in the same quarter of 2014. During the first nine months of 2015, the Company generated $45.3 million ($0.30 per common share, basic and diluted) of funds from operations, representing a decrease of 47% from $86.1 million ($0.72 per common share, basic and $0.70 per common share, diluted) in the same nine month period of 2014. The decrease in funds from operations reflects the impact of the significant decline in commodity prices in 2015. The impact of lower total revenue on operating cash flow was compounded by higher total expenses required to support the 53% increase in production volumes over the same period. Funds from operations for the third quarter of 2015 benefited from the Company's continued operational initiatives and previous expenditures on infrastructure, resulting in a significant reduction in per unit production and transportation expenses.

## INVESTMENT

### CAPITAL EXPENDITURES

Kelt is committed to future growth through its strategy to implement a full-cycle exploration and development program. In addition, Kelt seeks to identify and acquire strategic oil and gas properties where it believes further exploitation, development and exploration opportunities exist.

The Company's total capital expenditures, including acquisitions and dispositions ("A&D"), are summarized in the following table:

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2015** | 2014 | % | **2015** | 2014 | % |
| Capital expenditures: | | | | | | |
| Lease acquisition and retention | **1,203** | 6,245 | -81% | **7,301** | 12,096 | -40% |
| Geological and geophysical | **5** | 986 | -99% | **1,077** | 1,076 | 0% |
| Drilling and completion of wells | **27,081** | 60,767 | -55% | **70,528** | 127,101 | -45% |
| Facilities, pipeline and well equipment | **5,260** | 10,084 | -48% | **45,659** | 24,102 | 89% |
| Corporate assets | **33** | 245 | -87% | **563** | 538 | 5% |
| Capital expenditures, before A&D | **33,582** | 78,327 | -57% | **125,128** | 164,913 | -24% |
| Property acquisitions | **(193)** | 1,041 | | **14,748** | 11,582 | |
| Property dispositions | **-** | - | | **-** | (19,635) | |
| Corporate acquisition | **927** | 167,574 | | **314,045** | 167,574 | |
| Capital expenditures, net | **34,316** | 246,942 | -86% | **453,921** | 324,434 | 40% |

(1) The total cost of the Artek acquisition, as reported above, includes $217.9 million of common share consideration valued based on the negotiated price of $8.10 per common share of Kelt, and the $100.3 million working capital deficit assumed, net of $4.2 million of intercompany balances extinguished upon completion of the arrangement.

During the first nine months of 2015, Kelt spent approximately $6.2 million at crown land sales adding 41,680 gross (37,840 net) acres to its inventory of undeveloped land at an average bonus cost of $162 per acre. By comparison, the average bonus cost of leases acquired during the first nine months of 2014 was $245 per acre.

Kelt drilled 4 (4.0 net) wells during the third quarter of 2015, bringing the total number of wells drilled up to 11 (10.1 net) for the first nine months of 2015, with a success rate of 100%. Kelt's net drilling activity is down by approximately 57% compared to the corresponding periods of the previous year, in which Kelt drilled 11 (11.0 net) wells during the third quarter and 27 (23.5 net) wells in the first nine months of 2014. Drilling and completion costs of $70.5 million for the nine month period ended September 30, 2015 include completion costs for wells drilled in the previous year, as Kelt's drilling program was very active in the second half of 2014. Improvements in technology and completion techniques, combined with lower input costs have resulted in a decrease in the Company's average drill and complete cost per well.

The Company's capital expenditures for the nine month period ended September 30, 2015 include $45.7 million of spending on infrastructure. During the first nine months of 2015, Kelt expanded treating and compression capacity at the Karr 10-21 oil battery and Pouce Coupe 6-33 compression facility. In each of its core areas, Kelt has embarked on projects that are expected to reduce corporate operating and transportation expenses. Expansion of the Company's network of pipelines and gathering systems is expected to reduce trucking requirements and third party pipeline tariffs. In addition, activation of water injection facilities has reduced trucking and salt water disposal costs.

*Acquisition of Artek Exploration Ltd.*

On April 16, 2015, the Company closed the acquisition of Artek by acquiring all of the issued and outstanding common shares of Artek on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26,900,375 common shares of Kelt to the former shareholders of Artek. The acquisition was completed by way of a statutory plan of arrangement under the *Business Corporations Act* (Alberta), pursuant to which, Artek common shares were delisted from the TSX and Artek became a wholly-owned subsidiary of Kelt. Immediately following the Arrangement, a name change was effected to change the name of Artek to Kelt Exploration (LNG) Ltd.

(“Kelt LNG”). Concurrently, Kelt transferred all of its British Columbia assets to Kelt LNG and at the same time, Kelt LNG transferred all of its Alberta assets to Kelt. The acquisition of Artek consolidates the majority of Kelt’s land acreage in its Inga-Fireweed-Stoddart, British Columbia core area to 100% and is consistent with the Company’s strategy to operate and control all of its major core exploration and development prospects. In addition, Kelt’s acquisition of Artek results in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in northeastern British Columbia.

The acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at the estimated fair value on the acquisition date of April 16, 2015. The following table summarizes the acquisition date fair value of the consideration paid and the preliminary allocation of the purchase price:

| | |
|---|---|
| Number of Kelt common shares issued (thousands) | 26,900 |
| Fair value of Kelt common shares ($/share)(1) | $9.02 |
| Fair value of common share consideration(1) | 242,641 |
| Settlement of pre-existing relationship | (4,169) |
| **Net consideration** | **238,472** |
| | |
| Net working capital, including bank debt | (100,321) |
| Exploration and evaluation assets | 54,366 |
| Property, plant and equipment | 346,238 |
| Decommissioning obligations | (11,966) |
| Deferred income tax liability | (31,949) |
| **Fair value of net assets acquired(2)** | **256,368** |
| | |
| **Gain on acquisition(2)** | **17,896** |

(1) Pursuant to IFRS 3, the fair value of common share consideration is measured based on the share price on the closing date of the acquisition. The share exchange ratio of 0.34 was negotiated based on the volume weighted average trading price of Kelt common shares that traded on the TSX during the five day period ended February 20, 2015 of $8.10 per share. If the negotiated price of $8.10 per share was used, the common share consideration would be valued at $217.9 million.

(2) The fair values of identifiable assets and liabilities acquired and the resultant gain on acquisition, as reported in the table above, were estimated based on information available at the time of preparation of these interim financial statements. Actual amounts recognized by the Company once the acquisition accounting is finalized may differ materially from these estimates.

Artek and Kelt were partners in joint operations. The settlement of the pre-existing relationship relates to $6.0 million of accounts payable by Kelt to Artek, net of $1.9 million of accounts receivable by Kelt from Artek, which were extinguished upon completion of the arrangement.

The net working capital deficit includes $7.0 million of accounts receivable and accrued revenue, $0.4 million of deposits, $11.9 million of accounts payable and accrued liabilities and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek’s credit agreement, Artek’s demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid and terminated by Kelt at closing using borrowings available under Kelt’s Credit Facility.

The Company recognized a gain on the acquisition of Artek as the total fair value of net assets acquired exceeds the fair value of the consideration paid for Artek’s shares by $17.9 million.

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the Artek acquisition on April 16, 2015. Specifically, Kelt’s profit (loss) for the nine month period ended September 30, 2015 includes approximately $32.0 million of revenue and $7.8 million of operating income generated from the acquired interest in the properties subsequent to closing. If the acquisition had occurred on January 1, 2015, pro-forma revenue and operating income is estimated to be approximately $45.5 million and $9.3 million, respectively, for the nine month period ended September 30, 2015. Operating income is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

Key attributes of the assets acquired:

- Average production of Artek's Inga-Fireweed-Stoddart assets at the time of the acquisition was approximately 4,800 BOE/d (48% oil/ NGLs, and 52% gas) primarily from the Montney and Doig formations;
- Artek's petroleum and natural gas reserves were evaluated independently by Sproule effective December 31, 2014. Total proved reserves were 24.0 million BOE, with $184.0 million in associated future development capital and total proved plus probable reserves were 46.4 million BOE, with $291.0 million in associated future development capital;
- The acquisition adds to Kelt's land holdings in the British Columbia core area, adding 259,524 gross acres (405 sections) and 220,848 net acres (345 sections) of land, 202,967 net acres (317 net sections) were undeveloped; and
- Kelt's acquisition of Artek results in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in the area.

*Karr property acquisition*

On April 1, 2015, Kelt completed a strategic property acquisition in its core area at Karr, whereby the Company acquired a 3.3% ownership interest in the Karr Gas Plant and approximately 110 BOE per day of production for cash consideration of $10.0 million, before closing adjustments. Securing ownership priority in this gas plant is instrumental in maintaining cash flow stability in the area. In addition, Pembina Pipeline Corp. is expected to have their Karr oil pipeline lateral constructed and in service in the second quarter of 2016 which will transport crude oil from the Karr area. The Company expects a reduction in trucking costs at Karr as a result.

*Spirit River property acquisition*

On February 9, 2015, Kelt acquired an additional 14.4% interest in the Spirit River Charlie Lake E&M Unit, consolidating the Company's working interest in the unit from 81.7% to 96.1%. Cash consideration for the property acquisition was $4.7 million, before closing adjustments, and also included some non-unit working interests in the Spirit River area.

*Non-core property disposition*

On February 10, 2014, Kelt completed the disposition of certain non-core and non-operated assets in northwestern Alberta. These assets were part of the assets included in the Pouce Coupe/Spirit River acquisition that was completed on December 20, 2013. The Company received proceeds of $20.0 million, before closing adjustments. Net production from these assets was approximately 210 barrels per day of oil at the time of the disposition.

## CAPITAL RESOURCES AND LIQUIDITY

### SOURCE OF FUNDS

During the nine month period ended September 30, 2015, the Company generated $51.7 million in cash provided by operating activities. The Company's capital expenditures in the first nine months of 2015 were funded by cash provided by operating activities, equity financings, and bank debt.

During the nine month period ended September 30, 2015, the Company raised aggregate gross proceeds of $123.4 million by issuing 14.1 million common shares at an average price of $8.78 per common share. In addition, Kelt issued 26.9 million common shares to the shareholders of Artek as consideration for the acquisition. During the previous year ended December 31, 2014, the Company raised proceeds of $147.0 million through the issuance of 12.4 million common shares at an average price of $11.84 per common share and issued 4.3 million common shares pursuant to the acquisition of Capio. Details of the foregoing are set out in note 11 of the consolidated interim financial statements.

The Company has a $300.0 million revolving committed term Credit Facility with a syndicate of financial institutions, on which, Kelt had drawn $147.8 million at September 30, 2015. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed.

Kelt expects to fund future capital expenditures through the use of a combination of cash provided by operating activities and bank debt, supplemented by new equity or debt offerings, as necessary.

**WORKING CAPITAL**

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at September 30, 2015, the Company's working capital deficit of $34.5 million combined with outstanding bank debt of $147.8 million, represented 61% of the authorized borrowing amount available under the Credit Facility of $300.0 million.

The Company's accounts receivable consists primarily of accrued revenue and joint venture receivables. The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas. This occurs on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. Kelt monitors its counterparty credit positions to mitigate any potential credit losses. To the extent that the Company has joint venture partners in its activities, it must collect the partners' share of capital expenditures and operating expenses on a monthly basis. Exceptions are in the event that the partners' share of a capital project is a significant amount. In this case, Kelt will collect such amounts from its partners in advance of expenditures taking place in accordance with standard industry operating procedures. At September 30, 2015, approximately 84% of accounts receivable are current. The balance of accounts receivable outstanding for more than 90 days is approximately $2.4 million and relates primarily to receivables from joint venture partners. Management has reviewed past due accounts and expects the balances to be fully collectible, except for approximately $0.4 million of accounts receivable which are provided for in the allowance for doubtful accounts.

Accounts payable and accrued liabilities total $60.9 million as at September 30, 2015, of which approximately $11.9 million is payable and $49.0 million is accrued. Accrued liabilities include approximately $21.9 million of estimated capital expenditures related to the Company's capital program. Invoices are processed within the Company's normal payment period, which is typically 30 to 60 days.

**LIQUIDITY**

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company's financial liabilities are comprised of accounts payable, derivative financial instruments and bank debt. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. Kelt targets a debt to trailing funds from operations ratio of less than 2.0 times. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. Kelt actively manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing capital investment levels. In addition, the Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. As a result of the rapid decline in commodity prices during the first nine months of 2015, Kelt's net debt to trailing funds from operations ratio increased to 2.7 times as at September 30, 2015, up from 0.9 times at December 31, 2015. In response to the current commodity price environment, the Company reduced its capital expenditure budget, excluding corporate acquisitions, by 30% to $179.8 million for 2015 compared to $256.3 million in 2014. As new and behind pipe production is brought on stream, the Company expects the net debt to trailing funds from operations ratio to decrease to an acceptable level (refer to *Outlook and Guidance* section, as well as advisories regarding forward looking statements). Despite lower cash flows due resulting from depressed commodity prices, Kelt has maintained a debt-to-equity ratio of 0.2 times at September 30, 2015 (December 31, 2014 – 0.2 times) and a healthy asset coverage ratio of 7.5 times at September 30, 2015 (December 31, 2014 – 8.7 times).

As at September 30, 2015, the Company had drawn $147.8 million on its $300.0 million revolving committed term Credit Facility. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. Repayments of principal are not required provided that the borrowings under the Credit Facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Company is not subject to any financial covenants under the Credit Facility and as at September 30, 2015, Kelt is in compliance with all other covenants. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April/May and October/November of each year. The lending syndicate has substantially completed their current interim review and the Company expects to finalize terms of the amending agreement in mid-November. The Company expects that the total commitment under the Credit Facility will remain unchanged at $300.0 million, however current availability is expected to be reduced to $275.0 million, with additional funds available up to the total Credit Facility commitment of $300.0 million subject to approval of the lending syndicate. There are no expected changes to the revolving period, covenants or applicable margins on borrowing costs. Although Kelt believes that these expectations and the assumptions on which they are based to be reasonable, undue reliance should not be placed on these forward-looking statements because Kelt cannot give assurance that they will be realized. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders.

| **KEY DEBT RATIOS** | **As at September 30, 2015** | | As at December 31, 2014 | |
|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **Amount** | **Ratio** | Amount | Ratio |
| Debt to funds from operations ratio: | | | | |
| Net debt[1] | **182,257** | | 104,430 | |
| Funds from operations – trailing[2][3] | **66,404** | | 115,503 | |
| Funds from operations – forecast[4][5] | **110,000** | | 88,000 | |
| Debt to funds from operations – trailing | | **2.7 x** | | 0.9 x |
| Debt to funds from operations – forecast | | **1.7 x** | | 1.2 x |
| Asset coverage ratio: | | | | |
| Total assets | **1,365,007** | | 908,709 | |
| Net debt[1] | **182,257** | | 104,430 | |
| Asset coverage | | **7.5 x** | | 8.7 x |
| Debt to equity ratio: | | | | |
| Net debt[1] | **182,257** | | 104,430 | |
| Shareholders' equity | **939,644** | | 619,639 | |
| Debt to equity | | **0.2 x** | | 0.2 x |

(1) "Net debt" is calculated by adding the working capital deficiency to bank debt.

(2) As at September 30, 2015, trailing funds from operations is equal to funds from operations for the third quarter of 2015 of $16.6 million, annualized.

(3) As at December 31, 2014, trailing funds from operations is equal to actual funds from operations reported for the year ended December 31, 2014.

(4) As of November 9, 2015, the date of this MD&A as at and for the period ended September 30, 2015, forecast funds from operations for 2016 is estimated to be $110.0 million. Refer to additional information under the heading of *Outlook and Guidance, as well as* advisories regarding forward looking statements.

(5) As of March 9, 2015, the date of the MD&A as at and for the year ended December 31, 2014, forecast funds from operations for 2015 was estimated to be $88.0 million.

## SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at September 30, 2015 there were 168.6 million common shares issued and outstanding (as at November 9, 2015, there are 168.6 million common shares outstanding). There are no preferred shares issued or outstanding.

As at September 30, 2015, officers, directors, and employees have been granted options to purchase 5.1 million common shares of the Company at an average exercise price of $8.35 per common share. In addition, there are 1.3 million RSUs outstanding. Options and RSUs outstanding at September 30, 2015 represented 3.8% of total common shares issued and outstanding. Additional information regarding the Company's stock options and RSUs is included in note 11 of the consolidated interim financial statements.

The Company's common shares trade on the TSX under the symbol "KEL".

## DERIVATIVE FINANCIAL INSTRUMENTS

The Company may, from time to time, enter into fixed price contracts and derivative financial instruments with respect to oil and gas sales, currency exchange and interest rates in order to secure a certain amount of cash flow to protect a desired level of capital spending.

At September 30, 2015, the following risk management contracts were outstanding:

| Contract Type | Notional Amount | Reference Price | Fixed Contract Price | Remaining Term | Fair value Asset (Liability) |
|---|---|---|---|---|---|
| FX swap | US$3,000,000 per month | Bank of Canada noon rate | CA$/US$ 1.2580 | October 1, 2015 to December 31, 2015 | **(691)** |
| Interest Rate Swap | $100,000,000 | CDOR | 0.925% | October 1, 2015 to June 30, 2017 | **(313)** |
| Commodity Swap | 30,000 mmbtu/d | Nymex Henry Hub AECO 5A | NYMEX minus US$0.625/mmbtu | October 1, 2015 to December 31, 2015 | **(686)** |
| **Net derivative financial instrument liability** | | | | | **(1,690)** |

The fair value of the currency exchange contract is sensitive to changes in foreign exchange rates. If the Canadian/US dollar exchange rate increases (decreases) by CA$0.05, the fair market value of the contract would decrease (increase) by approximately $0.5 million.

The fair value of the interest rate swap is sensitive to changes in the Canadian Dollar Offered Rate (“CDOR”). If the CDOR rate increases (decreases) by 10 basis points, the fair market value of the contract would increase (decrease) by approximately $0.2 million.

The fair value of the commodity swap contract is sensitive to changes in the NYMEX-AECO basis differential. If the differential increases (decreases) by US$0.05, the fair market value of the contract would increase (decrease) by approximately $0.2 million.

## CONTRACTUAL OBLIGATIONS

As of September 30, 2015, the Company is committed to future payments under the following agreements:

| *(CA$ thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter |
|---|---|---|---|---|---|---|
| Operating lease – office buildings | 304 | 1,235 | 1,257 | 497 | 114 | 19 |
| Operating lease – vehicles | 125 | 214 | 136 | 33 | - | - |
| Flow-through shares | 5,380 | - | - | - | - | - |
| Firm transportation commitments – CAD | 796 | 3,182 | 3,182 | 3,182 | 1,729 | 21 |
| Firm transportation commitments – USD(1) | 977 | 11,721 | 8,446 | - | - | - |
| **Total annual commitments** | **7,582** | **16,352** | **13,021** | **3,712** | **1,843** | **40** |

(1) Commitments under firm transportation contracts denominated in US dollars are translated to Canadian dollars at the spot rate on September 30, 2015 of $1.3345. If the Canadian/US dollar exchange rate increases (decreases) by CA$0.05, the total commitment over the term of the USD contracts would increase by approximately $0.3 million (decrease by approximately $0.2 million).

Payments under the office building operating leases relate to the Company’s head office in Calgary, Alberta, and field offices in Grande Prairie, Alberta and Fort St. John, British Columbia. The leases expire on April 30, 2018, February 28, 2020, and November 30, 2015, respectively, if not extended. The Company is currently negotiating a renewal of the Fort St. John field office lease, however, as of the date of this MD&A, an agreement has not been finalized.

## RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the first nine months ended September 30, 2015, the Company incurred $0.6 million (2014 – $0.4 million) in legal fees and disbursements, of which, less than $0.1 million is payable at September 30, 2015 ($0.1 million at December 31, 2014). The Company expects to continue using the services of this law firm from time to time.

## OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended September 30, 2015 and 2014.

## SUMMARY OF QUARTERLY RESULTS

| *(CA$ thousands, except as otherwise indicated)* | **Q3 2015** | Q2 2015 | Q1 2015 | Q4 2014 |
|---|---|---|---|---|
| Revenue, before royalties and financial instruments | **45,015** | 52,131 | 39,383 | 54,396 |
| Funds from operations | **16,601** | 14,701 | 13,980 | 29,668 |
| Per share – basic ($/common share) | **0.10** | 0.10 | 0.11 | 0.23 |
| Per share – diluted ($/common share) | **0.10** | 0.09 | 0.11 | 0.23 |
| Profit (loss) and comprehensive income (loss) | **(22,135)** | (7,407) | (16,524) | 1,256 |
| Per share – basic ($/common share) | **(0.13)** | (0.05) | (0.13) | 0.01 |
| Per share – diluted ($/common share) | **(0.13)** | (0.05) | (0.13) | 0.01 |
| Total assets | **1,365,007** | 1,366,676 | 966,613 | 908,709 |
| Bank debt | **147,801** | 224,221 | 105,117 | 46,929 |
| Working capital deficiency (surplus) | **34,456** | 25,831 | 33,633 | 57,501 |
| Shareholders' equity | **939,644** | 872,647 | 635,708 | 619,639 |
| Average daily production (BOE/d) | **18,695** | 19,473 | 16,005 | 15,559 |
| Average realized price, after financial instruments ($/BOE) | **25.71** | 29.57 | 28.61 | 39.96 |
| Operating netback ($/BOE) | **11.52** | 10.23 | 10.78 | 21.55 |
| Netback as a percentage of revenue | **45%** | 35% | 38% | 54% |

| | Q3 2014 | Q2 2014 | Q1 2013 | Q4 2013 |
|---|---|---|---|---|
| Revenue, before royalties and financial instruments | 61,136 | 51,366 | 47,793 | 18,543 |
| Funds from operations | 31,984 | 27,973 | 26,112 | 9,629 |
| Per share – basic ($/common share) | 0.25 | 0.23 | 0.24 | 0.09 |
| Per share – diluted ($/common share) | 0.25 | 0.22 | 0.23 | 0.09 |
| Profit (loss) and comprehensive income (loss) | 1,185 | 3,336 | 4,851 | (1,838) |
| Per share – basic ($/common share) | 0.01 | 0.03 | 0.04 | (0.02) |
| Per share – diluted ($/common share) | 0.01 | 0.03 | 0.04 | (0.02) |
| Total assets | 820,241 | 669,098 | 666,257 | 485,201 |
| Bank debt | - | - | - | - |
| Working capital deficiency (surplus) | 37,219 | (116,488) | (123,150) | (20,500) |
| Shareholders' equity | 614,384 | 544,735 | 539,410 | 392,872 |
| Average daily production (BOE/d) | 13,872 | 11,381 | 10,143 | 5,739 |
| Average realized price, after financial instruments ($/BOE) | 47.49 | 48.23 | 50.99 | 34.74 |
| Operating netback ($/BOE) | 25.81 | 27.63 | 29.40 | 18.67 |
| Netback as a percentage of revenue | 54% | 57% | 58% | 54% |

Since commencing active operations on February 27, 2013, the Company has significantly grown its asset and production base through a combination of a robust drilling program and accretive acquisitions. In addition to cash provided by operating activities, the Company's capital expenditures were funded primarily through equity financings, and supplemented by bank debt starting in the fourth quarter of 2014.

Inherent to the nature of the oil and gas industry, fluctuations can be expected quarter over quarter in the amount of revenue, funds from operations and/or profit (loss) generated by the Company. These fluctuations may be caused by, among other things, variations in production volumes, realized commodity prices and the related impact on royalties, changes in per unit expenses and provisions for deferred income taxes. Refer to the *Results of Operations* section of this MD&A for an explanation of changes.

## BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company's operations or financial results. A discussion of the significant risk factors affecting the Company is included in Kelt's Annual Information Form dated March 11, 2015, which can be found at www.sedar.com.

## BUSINESS OUTLOOK

### ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain information with respect to Kelt contained herein, including management's assessment of future plans and operations, contains forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, certain of which are beyond Kelt's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, imprecision of reserve estimates, environmental risks, competition from other explorers, stock market volatility and ability to access sufficient capital. As a result, Kelt's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

### CURRENT ECONOMIC ENVIRONMENT

The current economic environment continues to be challenging and uncertain. Increasing global crude oil supplies have surpassed global demand and as a result, crude oil prices have been negatively affected. Natural gas infrastructure and capacity constraints continue to impact commodity prices being realized in domestic markets relative to world markets. In addition, uncertainties facing debt markets around the world could lead to tighter credit markets in the future.

The number of rigs drilling for crude oil in the U.S. declined to 652 in early September 2015, after peaking at about 1,600 in November 2014. With low current oil prices, Kelt believes that global oil supply will eventually be negatively affected as a result of significant reductions in capital investment. Kelt believes this will lead to higher crude oil prices in 2016.

The number of rigs drilling for natural gas in the U.S. declined to 196 in early September 2015, after peaking at about 1,600 in September 2008. Despite record high gas supply in the U.S. primarily due to higher productive shale wells, Kelt expects U.S. supply will be negatively affected as declines on new production sets in. In addition, with a declining crude oil rig count in the U.S., associated gas production will also be negatively affected. Kelt believes these factors bode well for natural gas prices in 2016.

In this environment, Kelt continues to focus on maintaining a strong balance sheet, giving the Company the ability to take advantage of opportunities as they arise. The Company's capital expenditure program is also flexible, with the ability to defer expenditures into the future if the current economic environment deteriorates.

### OUTLOOK AND GUIDANCE

The oil and gas industry in North America continues to operate in a challenging commodity price environment as a result of low oil and gas prices. Due to market instability and volatile commodity prices, many oil and gas companies have reduced their capital spending plans. Ultimately, lower capital investment in oil and gas drilling can be expected to balance the supply and demand ratio. Kelt is optimistic about the long-term outlook for oil and gas commodity prices.

Kelt believes that the current business environment creates opportunities to add value at a reasonable cost. The cost to acquire land at Crown sales in the Company's core operating areas has dropped significantly and service related costs to drill and complete wells have also declined substantially. In order to capitalize on opportunities in the current energy business environment, Kelt continues to evaluate and acquire tuck-in properties in and around its core areas and is active at Crown land sales. The Company remains opportunity driven and is confident that it can continue to grow its production base by building on its current inventory of development projects and by adding new exploration prospects.

The table below outlines the Company's updated forecasted financial and operating guidance for 2015 and new guidance for 2016:

| *(CA$ millions, except as otherwise indicated)* | **2016 Forecast** | 2015 Forecast | % Change |
|---|---|---|---|
| Average Production | | | |
| Oil (bbls/d) | **5,800** | 5,250 | +10% |
| NGLs (bbls/d) | **2,200** | 1,750 | +26% |
| Gas (mmcf/d) | **84.00** | 72.00 | +17% |
| Combined (BOE/d) | **22,000** | 19,000 | +16% |
| Production per million common shares (BOE/d) | **130** | 123 | +6% |
| | | | |
| Forecasted Average Commodity Prices | | | |
| WTI oil price (USD/bbl) | **56.00** | 51.00 | +10% |
| NYMEX natural gas price (USD/MMBTU) | **2.95** | 2.70 | +9% |
| AECO natural gas price ($/GJ) | **2.95** | 2.60 | +13% |
| Forecasted Average Exchange Rate (US$/CA$) | **0.763** | 0.784 | -3% |
| | | | |
| Capital Expenditures | | | |
| Drilling & completions | **75.0** | 100.0 | -25% |
| Facilities, pipeline & well equipment | **22.0** | 47.0 | -53% |
| Land, seismic & property "tuck-in" acquisitions | **13.0** | 34.0 | -62% |
| Corporate Acquisition | **-** | 314.0 | - |
| Total Capital Expenditures | **110.0** | 495.0 | -78% |
| | | | |
| Funds from operations | **110.0** | 68.0 | +62% |
| Per share, diluted | **0.65** | 0.44 | +48% |
| | | | |
| Bank debt, net of working capital, at year-end | **197.0** | 197.0 | 0% |
| Debt/Trailing funds from operations ratio[1] | **1.8 x** | 2.9 x | -38% |
| | | | |
| Weighted average common shares outstanding (MM) | **168.7** | 154.8 | +9% |
| Common shares issued & outstanding (MM) | **168.7** | 168.7 | 0% |

(1) Debt/Trailing funds from operations ratio is calculated using estimated bank debt, net of working capital, at December 31st of the year divided by estimated funds from operations for that year.

Forecast average production of 22,000 BOE per day in 2016 is estimated to be weighted 36% to oil and NGLs and 64% to gas. This compares to a similar weighting expected in 2015. However, 77% of forecasted operating income in 2016 is expected to be generated from oil and NGLs versus 23% from gas. Comparatively, 85% of forecasted 2015 operating income is expected to be generated from oil and NGLs versus 15% from gas.

During 2016, the Company is forecasting oil and gas prices to average WTI US$56.00 per barrel and AECO $2.95 per GJ, respectively. Changes in forecasted commodity prices and variances in production estimates can have a significant impact on estimated funds from operations and profit. Please refer to the cautionary statement on forward-looking statements and information set out herein. Sensitivities to changes in these prices are as follows: a change in 10% in the average WTI oil price forecast would affect funds from operations by $8.1 million and a change in 10% in the average AECO gas price forecast would affect funds from operations by $11.6 million. The Company reviews its commodity price forecasts periodically and retains the flexibility to adjust its capital expenditure plans accordingly.

Kelt expects to spend $110 million in 2016 on land, seismic, drilling and infrastructure, a reduction of $71 million or 39% compared to 2015 capital spending plans, excluding the corporate acquisition for $314 million completed in 2015. The Company plans to drill 13 gross (12.5 net) wells in 2016 compared to 18 gross (16.1 net) wells in 2015.

The Company has substantially completed the interim review of its credit facility with its lending syndicate and expects to finalize the terms in mid-November. The Company expects that the total credit facility commitment will remain unchanged at $300 million, with an annual revolving period expiring on April 30, 2016. There are no expected changes to covenants or applicable margins on borrowing costs. Current availability under the credit facility is expected to be $275 million, with additional funds available up to the total credit facility commitment of $300.0 million subject to approval of the lending syndicate. Bank debt, net of working capital, at the end of 2016 is forecasted to be $197 million, leaving the Company with sufficient unused borrowing capacity, providing financial flexibility.

The information set out herein under the heading “Outlook and Guidance” is “financial outlook” within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt’s reasonable expectations as to the anticipated results of its proposed business activities. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

## ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company’s Annual Information Form (“AIF”) dated March 11, 2015, is filed on SEDAR and can be viewed on their website at www.sedar.com. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President, Finance and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to the Company is also available on its website at www.keltexploration.com.

On behalf of the Board of Directors,

*[signed]*

David J. Wilson
President and Chief Executive Officer
November 9, 2015

**KELT EXPLORATION LTD.**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
[Unaudited]

| *(CA$ thousands)* | [Notes] | **September 30, 2015** | December 31, 2014 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **567** | 1,049 |
| Accounts receivable and accrued revenue | [13] | **26,371** | 35,092 |
| Prepaid expenses and deposits | | **2,455** | 2,839 |
| Derivative financial instruments | [13] | **-** | 1,745 |
| **Total current assets** | | **29,393** | 40,725 |
| Exploration and evaluation assets | [6] | **130,637** | 79,294 |
| Property, plant and equipment | [7] | **1,186,771** | 770,484 |
| Goodwill | [8] | **18,206** | 18,206 |
| **Total assets** | | **1,365,007** | 908,709 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **60,938** | 96,776 |
| Derivative financial instruments | [13] | **1,690** | - |
| Deferred premium on flow-through shares | [11] | **463** | 692 |
| Decommissioning obligations | [10] | **758** | 758 |
| **Total current liabilities** | | **63,849** | 98,226 |
| Bank debt | [9] | **147,801** | 46,929 |
| Decommissioning obligations | [10] | **140,582** | 94,033 |
| Deferred income tax liability | [12] | **73,131** | 49,882 |
| **Total liabilities** | | **425,363** | 289,070 |
| **SHAREHOLDERS' EQUITY** | | | |
| Shareholders' capital | [11] | **1,021,468** | 657,102 |
| Reserve from common control transaction | | **(57,668)** | (57,668) |
| Contributed surplus | | **16,397** | 14,692 |
| Retained earnings (deficit) | | **(40,553)** | 5,513 |
| **Total shareholders' equity** | | **939,644** | 619,639 |
| **Total liabilities and shareholders' equity** | | **1,365,007** | 908,709 |

**Acquisitions** [5]
**Commitments** [15]

*The accompanying notes form an integral part of these condensed consolidated interim financial statements.*

On behalf of the Board of Directors:

*[signed]*
David J. Wilson, Director

*[signed]*
Neil G. Sinclair, Director

**KELT EXPLORATION LTD.**
**CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)**
[Unaudited]

| *(CA$ thousands, except per share amounts)* | [Notes] | Three months ended September 30 **2015** | 2014 | Nine months ended September 30 **2015** | 2014 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Oil and gas sales | | **45,015** | 61,136 | **136,529** | 160,295 |
| Royalties | | **(4,140)** | (9,245) | **(14,011)** | (21,919) |
| | | **40,875** | 51,891 | **122,518** | 138,376 |
| **Expenses** | | | | | |
| Production | | **17,247** | 15,075 | **58,103** | 39,113 |
| Transportation | | **3,029** | 3,345 | **12,235** | 7,681 |
| Financing | [14] | **2,560** | 556 | **6,660** | 1,626 |
| General and administrative | | **1,410** | 931 | **3,752** | 2,853 |
| Share based compensation | [11] | **1,906** | 2,441 | **6,286** | 6,507 |
| Depletion and depreciation | [7] | **37,401** | 26,263 | **103,139** | 58,118 |
| Exploration and evaluation | [6] | **1,259** | 62 | **2,683** | 248 |
| | | **64,812** | 48,673 | **192,858** | 116,146 |
| **Profit (loss) before other items and taxes** | | **(23,937)** | 3,218 | **(70,340)** | 22,230 |
| Other income | | **-** | 93 | **212** | 930 |
| Transaction costs | [5] | **(13)** | (185) | **(2,409)** | (230) |
| Premium on flow-through shares | [11] | **1,163** | 1,408 | **3,101** | 4,211 |
| Gain (loss) on derivative financial instruments | [13] | **(2,574)** | 1,932 | **(2,166)** | (2,574) |
| Gain on acquisition | [5] | **(578)** | - | **17,896** | - |
| Gain on sale of assets | | **-** | - | **190** | - |
| **Profit (loss) before taxes** | | **(25,939)** | 6,466 | **(53,516)** | 24,567 |
| Deferred income tax expense (recovery) | [12] | **(3,804)** | 5,281 | **(7,450)** | 15,195 |
| **Profit (loss) and comprehensive income (loss)** | | **(22,135)** | 1,185 | **(46,066)** | 9,372 |
| **Profit (loss) per common share** | | | | | |
| Basic | [11] | **(0.13)** | 0.01 | **(0.31)** | 0.08 |
| Diluted | [11] | **(0.13)** | 0.01 | **(0.31)** | 0.08 |

*The accompanying notes form an integral part of these condensed consolidated interim financial statements.*

**KELT EXPLORATION LTD.**
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
[Unaudited]

| *(CA$ thousands)* | [Notes] | Shareholders' capital | Reserve | Contributed surplus | Retained earnings (deficit) | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2014 | | **657,102** | **(57,668)** | **14,692** | **5,513** | **619,639** |
| Profit (loss) and | | | | | | |
| comprehensive income (loss) | | | | | **(46,066)** | **(46,066)** |
| Common shares issued: | | | | | | |
| Common share offerings | [11] | **123,429** | | | | **123,429** |
| Less: deferred premium on | [11] | | | | | |
| flow-through shares | | **(2,872)** | | | | **(2,872)** |
| Pursuant to corporate acquisition | [5] | **242,641** | | | | **242,641** |
| Share issue costs, net of tax | [11] | **(3,413)** | | | | **(3,413)** |
| Vesting of restricted share units | [11] | **4,581** | | **(4,581)** | | **-** |
| Share based compensation | [11] | | | **6,286** | | **6,286** |
| **Balance at September 30, 2015** | | **1,021,468** | **(57,668)** | **16,397** | **(40,553)** | **939,644** |
| | | | | | | |
| Balance at December 31, 2013 | | 449,876 | (57,668) | 5,779 | (5,115) | 392,872 |
| Profit (loss) and | | | | | | |
| comprehensive income (loss) | | | | | 9,372 | 9,372 |
| Common shares issued: | | | | | | |
| Common share offerings | [11] | 146,986 | | | | 146,986 |
| Less: deferred premium on | [11] | | | | | |
| flow-through shares | | (3,030) | | | | (3,030) |
| Pursuant to corporate acquisition | [5] | 66,243 | | | | 66,243 |
| Share issue costs, net of tax | [11] | (4,696) | | | | (4,696) |
| Exercise of stock options | [11] | 166 | | (36) | | 130 |
| Share based compensation | [11] | | | 6,507 | | 6,507 |
| Balance at September 30, 2014 | | 655,545 | (57,668) | 12,250 | 4,257 | 614,384 |

*The accompanying notes form an integral part of these condensed consolidated interim financial statements.*

**KELT EXPLORATION LTD.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
[Unaudited]

| *(CA$ thousands)* | [Notes] | Three months ended September 30 2015 | Three months ended September 30 2014 | Nine months ended September 30 2015 | Nine months ended September 30 2014 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Profit (loss) and comprehensive income (loss) | | **(22,135)** | 1,185 | **(46,066)** | 9,372 |
| Items not affecting cash: | | | | | |
| Accretion of decommissioning obligations | [10,14] | **784** | 443 | **2,033** | 1,232 |
| Share based compensation | | **1,906** | 2,441 | **6,286** | 6,507 |
| Depletion and depreciation | | **37,401** | 26,263 | **103,139** | 58,118 |
| Exploration and evaluation | | **1,259** | 62 | **2,683** | 248 |
| Premium on flow-through shares | | **(1,163)** | (1,408) | **(3,101)** | (4,211) |
| Unrealized loss (gain) on derivative financial instruments | [13] | **1,762** | (2,468) | **3,435** | (622) |
| Gain on acquisition | [5] | **578** | - | **(17,896)** | - |
| Gain on sale of assets | | **-** | - | **(190)** | - |
| Deferred income tax expense (recovery) | | **(3,804)** | 5,281 | **(7,450)** | 15,195 |
| Settlement of decommissioning obligations | [10] | **(69)** | (146) | **(232)** | (146) |
| Change in non-cash operating working capital | [16] | **(2,073)** | 1,127 | **9,101** | (1,602) |
| **Cash provided by operating activities** | | **14,446** | 32,780 | **51,742** | 84,091 |
| **Financing activities** | | | | | |
| Increase in bank debt | [9] | **(76,420)** | - | **100,872** | - |
| Issue of common shares | [11] | **90,049** | - | **123,429** | 146,986 |
| Proceeds on exercise of stock options | [11] | **-** | - | **-** | 130 |
| Share issue costs | | **(3,858)** | (293) | **(4,663)** | (6,261) |
| **Cash provided by financing activities** | | **9,771** | (293) | **219,638** | 140,855 |
| **Investing activities** | | | | | |
| Exploration and evaluation assets | | **(7,121)** | (42,739) | **(23,660)** | (59,425) |
| Property, plant and equipment | | **(26,461)** | (35,588) | **(101,468)** | (105,488) |
| Property acquisitions | [5] | **193** | (1,041) | **(14,748)** | (11,582) |
| Property dispositions | [4] | **-** | - | **-** | 19,635 |
| Corporate acquisition | [5] | **-** | (104,663) | **(95,839)** | (104,663) |
| Change in non-cash investing working capital | [16] | **8,414** | 19,839 | **(36,147)** | 19,526 |
| **Cash used in investing activities** | | **(24,975)** | (164,192) | **(271,862)** | (241,997) |
| **Net change in cash and cash equivalents** | | **(758)** | (131,705) | **(482)** | (17,051) |
| **Cash and cash equivalents, beginning of period** | | **1,325** | 146,669 | **1,049** | 32,015 |
| **Cash and cash equivalents, end of period** | | **567** | 14,964 | **567** | 14,964 |

*The accompanying notes form an integral part of these condensed consolidated interim financial statements.*

*(All tabular amounts in thousands of Canadian dollars, except as otherwise indicated)*

## 1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in west central Alberta and northeastern British Columbia. The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 as 1705972 Alberta Ltd. and was inactive until February 26, 2013. On October 19, 2012, Articles of Amendment were filed to change the name of the Company to Kelt Exploration Ltd. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "KEL".

On April 16, 2015, the Company completed the acquisition of Artek Exploration Ltd. ("Artek") by acquiring all of the issued and outstanding common shares of Artek pursuant to a statutory plan of arrangement under the *Business Corporations Act* (Alberta) (the "Artek Acquisition"). Pursuant to the arrangement, Artek common shares were delisted from the TSX and Artek became a wholly-owned subsidiary of Kelt. Immediately following the Artek Acquisition, Articles of Amendment were filed to change the name of Artek to Kelt Exploration (LNG) Ltd. ("Kelt LNG"). Kelt has transferred all of its British Columbia assets to Kelt LNG and at the same time, Kelt LNG has transferred all of its Alberta assets to Kelt. Kelt LNG operates in British Columbia as a wholly-owned subsidiary of Kelt, headquartered in Calgary, Alberta.

The head office of Kelt and Kelt LNG is located at Suite 300, 311 – 6th Avenue S.W., Calgary, Alberta T2P 3H2. Additional information relating to Kelt can be found on SEDAR at www.sedar.com.

## 2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements were approved and authorized for issue by the Company's Board of Directors on November 9, 2015.

### a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook – Accounting*. These condensed consolidated interim 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*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited annual financial statements as at and for the year ended December 31, 2014.

### b) Basis of measurement

All references to dollar amounts in these financial statements and related notes are thousands of Canadian dollars, unless otherwise indicated.

These financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 13 of these financial statements.

### c) Significant judgments and estimates

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2014 annual financial statements. Except for the significant estimates and judgements applied in the impairment analysis outlined in notes 7 and 8, there have been no other significant changes in the Company's judgments and estimates applied during the interim period ended September 30, 2015 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2014.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2014 annual financial statements. Except as outlined below, these condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the most recent annual financial statements as at and for the year ended December 31, 2014.

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

The consolidated financial statements include the accounts of Kelt and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at September 30, 2015, the Company has one wholly-owned subsidiary, Kelt LNG. The financial statements of subsidiaries are prepared for the same reporting period as Kelt, using uniform accounting policies. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation.

### Accounting standards issued but not yet effective

IFRS 15 *Revenue from Contracts with Customers,* provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The new standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 15 on the Company's financial statements.

IFRS 9 *Financial Instruments*, is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a company can recognize the portion of the change in fair value related to the change in the company's own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is currently assessing the potential impact of the adoption of IFRS 9 on the Company's financial statements.

## 4. PROPERTY DISPOSITION

On February 10, 2014, Kelt completed the disposition of certain non-core and non-operated assets located in northwestern Alberta for cash proceeds of approximately $19.6 million, after closing adjustments. The disposition included property, plant and equipment of $20.6 million and associated decommissioning obligations of $1.0 million, which were classified as held for sale at December 31, 2013. No gain or loss was recognized on the disposition as the assets held for sale were measured at fair value.

## 5. ACQUISITIONS

### a) Corporate Acquisitions

*Acquisition of Artek Exploration Ltd.*

On April 16, 2015, the Company closed the acquisition of Artek by acquiring all of the issued and outstanding common shares of Artek on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26,900,375 common shares of Kelt to the former shareholders of Artek. The Artek Acquisition was completed by way of a statutory plan of arrangement under the *Business Corporations Act* (Alberta), pursuant to which, Artek became a wholly-owned subsidiary of Kelt. The acquisition of Artek consolidates the majority of Kelt's land acreage in its Inga-Fireweed-Stoddart, British Columbia core area to 100% and is consistent with the Company's strategy to operate and control all of its major core exploration and development prospects. In addition, Kelt's acquisition of Artek results in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in northeastern British Columbia.

The Artek Acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at the estimated fair value on the acquisition date of April 16, 2015. The following table summarizes the acquisition date fair value of the consideration paid and the preliminary allocation of the purchase price:

| | |
|---|---|
| Number of Kelt common shares issued (thousands) | 26,900 |
| Fair value of Kelt common shares ($/share)[1] | $9.02 |
| Fair value of common share consideration[1] | 242,641 |
| Settlement of pre-existing relationship | (4,169) |
| **Net consideration** | **238,472** |
| | |
| Net working capital, including bank debt | (100,321) |
| Exploration and evaluation assets | 54,366 |
| Property, plant and equipment | 346,238 |
| Decommissioning obligations | (11,966) |
| Deferred income tax liability | (31,949) |
| **Fair value of net assets acquired[2]** | **256,368** |
| | |
| **Gain on acquisition[2]** | **17,896** |

(1) Pursuant to IFRS 3, the fair value of common share consideration is measured based on the share price on the closing date of the acquisition. The share exchange ratio of 0.34 was negotiated based on the volume weighted average trading price of Kelt common shares that traded on the TSX during the five day period ended February 20, 2015 of $8.10 per share. If the negotiated price of $8.10 per share was used, the common share consideration would be valued at $217.9 million.

(2) The fair values of identifiable assets and liabilities acquired and the resultant gain on acquisition, as reported in the table above, were estimated based on information available at the time of preparation of these interim financial statements. Actual amounts recognized by the Company once the acquisition accounting is finalized may differ materially from these estimates.

Artek and Kelt were partners in joint operations. The settlement of the pre-existing relationship relates to $6.0 million of accounts payable by Kelt to Artek, net of $1.9 million of accounts receivable by Kelt from Artek, which were extinguished upon completion of the arrangement.

The net working capital deficit includes $7.0 million of accounts receivable and accrued revenue, $0.4 million of deposits, $11.9 million of accounts payable and accrued liabilities and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid and terminated by Kelt at closing using borrowings available under Kelt's Credit Facility.

The Company recognized a gain on the acquisition of Artek as the total fair value of net assets acquired exceeds the fair value of the consideration paid for Artek's shares by $17.9 million.

Transaction costs of approximately $2.4 million were recognized as an expense in period. In addition, $0.2 million of transaction costs directly attributable to the issuance of common share consideration, were charged to equity, net of deferred taxes.

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the Artek acquisition on April 16, 2015. Specifically, Kelt's profit (loss) for the nine month period ended September 30, 2015 includes approximately $32.0 million of revenue and $7.8 million of operating income generated from the acquired interest in the properties subsequent to closing. If the acquisition had occurred on January 1, 2015, pro-forma revenue and operating income is estimated to be approximately $45.5 million and $9.3 million, respectively, for the nine month period ended September 30, 2015. Operating income is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

*Acquisition of Capio Exploration Ltd.*

On July 2, 2014, the Company closed the acquisition of Capio Exploration Ltd. ("Capio"), a private Canadian oil and gas company, by acquiring all of the issued and outstanding common shares of Capio, which held crude oil and natural gas assets located at Valhalla/La Glace, adjacent to Kelt's core producing areas at Pouce Coupe/Spirit River in west central Alberta. Pursuant to the terms of the acquisition, which had an effective date of May 1, 2014, the consideration paid by Kelt, after closing adjustments, consisted of $72.1 million in cash and the issuance of 4,270,956 common shares of Kelt. In addition, Kelt assumed a working capital deficit of $37.4 million, including $32.5 million of bank indebtedness which was repaid at closing and Capio's demand loan credit facility was terminated. Immediately following closing of the acquisition, all of the property, assets and liabilities of Capio were assigned to Kelt and Capio was subsequently dissolved.

The assets acquired are a complimentary fit with Kelt's existing core assets in west central Alberta. The goodwill recognized on the acquisition is attributed to the expected synergies and potential future cash flows to be derived from further exploration and development opportunities.

The table below summarizes the allocation of the purchase price:

| | |
|---|---|
| Cash consideration, after closing adjustments | 72,136 |
| Issuance of common shares(1) | 66,243 |
| **Total consideration** | **138,379** |
| | |
| Net working capital deficit(2) | (37,439) |
| Exploration and evaluation assets | 10,832 |
| Property, plant and equipment | 184,757 |
| Goodwill | 18,206 |
| Decommissioning obligations | (399) |
| Deferred income tax liability | (37,578) |
| **Fair value of net assets acquired** | **138,379** |

(1) The number of common shares issued pursuant to the acquisition was negotiated based on a total value of $58.0 million divided by the five day volume weighted average price of Kelt common shares that traded on the TSX from June 9th to 13th of $13.58 per common share. Under IFRS 3 *Business Combinations*, the value of common share consideration must be recognized based on acquisition date fair value. Accordingly, the value of common share consideration of $66.2 million reported above is based on the closing price of Kelt common shares on July 2, 2014 of $15.51 per common share.

(2) The net working capital deficit includes $32.5 million of bank indebtedness which was repaid by Kelt at closing pursuant to the change in control provisions under Capio's credit agreement.

### b) Property acquisitions

During the nine month period ended September 30, 2015, the Company completed several minor acquisitions of petroleum and natural gas assets for aggregate cash consideration of approximately $14.8 million. The property acquisitions have been accounted for as business combinations using the acquisition method, whereby the net assets acquired and the liabilities assumed are recorded at fair value. The assets acquired are a complimentary fit with Kelt's existing core assets located at Karr, Spirit River, Pouce Coupe, and Fireweed.

The following table summarizes the aggregate fair value of net assets acquired pursuant to minor property acquisitions completed during the nine month period ended September 30, 2015 and previous year ended December 31, 2014:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Exploration and evaluation assets | **261** | 8,368 |
| Property, plant and equipment | **15,039** | 23,489 |
| Decommissioning obligations | **(552)** | (7,143) |
| **Fair value of net assets acquired** | **14,748** | 24,714 |
| **Cash consideration, after closing adjustments** | **14,748** | 24,714 |

## 6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of the Company's undeveloped land, geological and geophysical assets, and exploratory drilling costs for projects in which the technical feasibility or commercial viability has yet to be determined. At the time sufficient information becomes available to determine whether the project is technically feasible or commercially viable, which is generally the point at which proved reserves are discovered, the costs are transferred to property, plant, and equipment.

The following table reconciles movements of exploration and evaluation assets during the period:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **79,294** | 40,564 |
| Additions | **23,660** | 101,524 |
| Property acquisitions [note 5] | **261** | 8,368 |
| Corporate acquisition [note 5] | **54,366** | 10,832 |
| Transfers to property, plant and equipment | **(24,261)** | (81,617) |
| Expired mineral leases | **(2,683)** | (377) |
| Balance, end of period | **130,637** | 79,294 |

The Company reviewed its exploration and evaluation assets for indicators of potential impairment as at September 30, 2015. Except for $2.7 million of costs associated with expired mineral leases which have been recognized as an expense during the nine month period ended September 30, 2015, the Company concluded there were no indicators of potential impairment at September 30, 2015.

## 7. PROPERTY, PLANT AND EQUIPMENT

| Net carrying value | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Development and production (“D&P”) assets | **1,186,352** | 769,951 |
| Corporate assets | **419** | 533 |
| Total net carrying value of property, plant and equipment | **1,186,771** | 770,484 |

The following table reconciles movements of property, plant and equipment (“PP&E”) during the period:

| Property, plant and equipment, at cost | D&P Assets | Corporate Assets | Total PP&E |
|---|---|---|---|
| Balance at December 31, 2013 | 421,849 | 414 | 422,263 |
| Additions | 149,087 | 636 | 149,723 |
| Property acquisitions [note 5] | 23,489 | - | 23,489 |
| Corporate acquisition [note 5] | 184,757 | - | 184,757 |
| Dispositions | - | (22) | (22) |
| Decommissioning costs | 38,608 | - | 38,608 |
| Transfers from E&E | 81,617 | - | 81,617 |
| Balance at December 31, 2014 | **899,407** | **1,028** | **900,435** |
| Additions | **100,905** | **563** | **101,468** |
| Property acquisitions [note 5] | **15,039** | **-** | **15,039** |
| Corporate acquisition [note 5] | **346,238** | **-** | **346,238** |
| Decommissioning costs | **32,420** | **-** | **32,420** |
| Transfers from E&E | **24,261** | **-** | **24,261** |
| **Balance at September 30, 2015** | **1,418,270** | **1,591** | **1,419,861** |

| Accumulated depletion and depreciation | D&P Assets | Corporate Assets | Total PP&E |
|---|---|---|---|
| Balance at December 31, 2013 | 45,450 | 105 | 45,555 |
| Depletion and depreciation expense | 84,006 | 412 | 84,418 |
| Dispositions | - | (22) | (22) |
| Balance at December 31, 2014 | **129,456** | **495** | **129,951** |
| Depletion and depreciation expense | **102,462** | **677** | **103,139** |
| **Balance at September 30, 2015** | **231,918** | **1,172** | **233,090** |

There were no borrowing costs capitalized in the current or prior period, as the Company did not have any qualifying assets. Future capital costs required to develop proved reserves in the amount of $563.1 million (December 31, 2014 – $382.8 million) are included in the depletion calculation for development and production assets.

The Company reviewed each cash generating unit (“CGU”) for indicators of possible impairment as of September 30, 2015. As a result of the significant decrease in forecast oil and natural gas prices, an indication of potential impairment was identified for all CGUs. Recoverable amounts for the Company’s CGUs were estimated based on fair value less costs of disposal (“FVLCD”) methodology, calculated using the present value of the CGUs’ expected future cash flows (after-tax). The primary source of cash flow information was derived from a report on the Company’s oil and gas reserves (the “2014 Sproule Report”) which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited (“Sproule”) as of December 31, 2014. The 2014 Sproule Report was updated internally to reflect Sproule’s revised price forecast as of September 30, 2015, and mechanically rolled forward to account for production during the first nine months of 2015. In addition, where sufficient information was available, reserves were adjusted based on internal estimates in respect of current period drilling activity, acquisitions or new information in 2015. The projected cash flows used in the FVLCD calculation reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on past experience, historical trends and Sproule’s evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at September 30, 2015 ranged from 9% to 12%, depending on the risks specific to the assets in the CGU. Based on the FVLCD calculation, the recoverable amount exceeded the carrying value for all CGUs, and accordingly, no impairment losses were recognized as at September 30, 2015.

Forecast future prices used in the impairment evaluations as at September 30, 2015 and as at December 31, 2014, reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| *As at September 30, 2015* | 2015(1) | 2016 | 2017 | 2018 | 2019(2) |
|---|---|---|---|---|---|
| WTI Cushing Oklahoma (US$/bbl) | 46.00 | 55.00 | 70.00 | 75.00 | 80.00 |
| Canadian Light Sweet 40 API ($/bbl) | 55.68 | 64.87 | 75.76 | 83.82 | 89.41 |
| NYMEX Henry Hub (US$/mmbtu) | 2.75 | 3.00 | 3.50 | 4.00 | 4.50 |
| AECO-C Spot ($/mmbtu) | 2.92 | 3.10 | 3.32 | 3.91 | 4.49 |
| Exchange rate (CA$/US$) | 1.3158 | 1.2821 | 1.1765 | 1.1765 | 1.1765 |

(1) Forecast average price for three month period ended December 31, 2015
(2) Prices escalate at 1.5% thereafter

| *As at December 31, 2014* | 2015 | 2016 | 2017 | 2018 | 2019(1) |
|---|---|---|---|---|---|
| WTI Cushing Oklahoma (US$/bbl) | 65.00 | 80.00 | 90.00 | 91.35 | 92.72 |
| Canadian Light Sweet 40 API ($/bbl) | 70.35 | 87.36 | 98.28 | 99.75 | 101.25 |
| NYMEX Henry Hub (US$/mmbtu) | 3.25 | 3.75 | 4.00 | 4.50 | 5.00 |
| AECO-C Spot ($/mmbtu) | 3.32 | 3.71 | 3.9 | 4.47 | 5.05 |
| Exchange rate (CA$/US$) | 1.1765 | 1.1494 | 1.1494 | 1.1494 | 1.1494 |

(1) Prices escalate at 1.5% thereafter

The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. Further decreases to commodity prices or increases to discount rates used would decrease the recoverable amounts of CGU's and result in impairment losses. If the discount rate applied to each CGU increased by 1%, the Company would have recognized an impairment of PP&E of approximately $10.9 million and an impairment of goodwill of approximately $13.1 million. If forecast average commodity prices decreased by 5%, the Company would have recognized an impairment of PP&E of approximately $33.1 million and an impairment of goodwill of $18.2 million.

## 8. GOODWILL

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **18,206** | - |
| Acquisition of Capio Exploration Ltd. [note 5] | **-** | 18,206 |
| Balance, end of period | **18,206** | 18,206 |

The carrying value of goodwill is attributable to the acquisition of Capio which closed on July 2, 2014. The Capio assets are located at Valhalla/La Glace, a light-oil property adjacent to Kelt's core producing assets at Pouce Coupe/Spirit River in the Grande Prairie area of west central Alberta. For the purposes of impairment testing, the carrying value of goodwill was allocated to the Company's Greater Grande Prairie CGU. As more particularly described in note 7, the Company completed an impairment test as at September 30, 2015 and concluded that the Greater Grande Prairie CGU, including allocated goodwill of $18.2 million, was not impaired based on an after-tax discount rate of 10%. The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. If the discount rate applied to Greater Grande Prairie CGU increased by 1%, the Company would have recognized an impairment of goodwill of approximately $13.1 million. If forecast average commodity prices decreased by 5%, the Company would have recognized an impairment for the full balance of goodwill of $18.2 million.

## 9. BANK DEBT

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. As at September 30, 2015, the authorized borrowing amount was $300.0 million. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April/May and October/November of each year (refer to additional information under the heading of *Liquidity Risk* in note 13). In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. Covenants include reporting requirements, permitted indebtedness, permitted dispositions, permitted hedging, permitted encumbrances and other standard business operating covenants. There are no financial covenants under the Credit Facility. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $800.0 million and general assignment of book debts.

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Bank loan | **15,700** | 47,200 |
| Bankers' acceptances | **132,900** | - |
| Unamortized financing fees | **(799)** | (271) |
| Bank debt | **147,801** | 46,929 |

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 1.0% to bank prime plus 2.5%, depending upon the Company's then current debt to cash flow ratio of between less than one and one tenth times to greater than three times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 2.0% to 3.5%, depending upon the Company's then current debt to cash flow ratio of between less than one and one tenth times to greater than three times.

## 10. DECOMMISSIONING OBLIGATIONS

Decommissioning obligations arise as a result of the Company's net ownership interests in petroleum and natural gas assets including well sites, processing facilities and infrastructure. The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **94,791** | 48,169 |
| Obligations incurred | **1,028** | 3,259 |
| Obligations acquired [note 5] | **12,518** | 7,542 |
| Obligations disposed [note 4] | **(190)** | (1,000) |
| Obligations settled | **(232)** | (229) |
| Changes in discount rate(1) | **30,622** | 35,095 |
| Revisions to estimates | **770** | 254 |
| Accretion expense | **2,033** | 1,701 |
| Balance, end of period | **141,340** | 94,791 |
| Current portion of decommissioning obligations | **(758)** | (758) |
| Long-term portion of decommissioning obligations | **140,582** | 94,033 |

(1) Decommissioning obligations acquired as part of a business combination are initially measured at fair value using a credit-adjusted risk-free rate to discount estimated future cash outflows. The revaluation of obligations acquired using the risk-free rate at the end of the period results in an increase in the present value of the obligation reported in the Statement of Financial Position.

The key assumptions on which the carrying amount of the decommissioning obligations is based, include a risk-free rate of 2.2% (December 31, 2014 – 2.3%) and an inflation rate of 2.0% (December 31, 2014 – 2.0%). The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2015, the undiscounted amount of the estimated cash flows required to settle the obligation is $149.3 million (December 31, 2014 – $105.9 million), and is expected to be incurred over the next 50 years.

Accretion of the decommissioning obligation due to the passage of time is presented within financing expenses in the Statement of Profit (Loss) and Comprehensive Income (Loss) (note 14).

## 11. SHARE CAPITAL

### Authorized

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, each without par value.

### Issued and outstanding

The following table summarizes the change in common shares issued and outstanding:

| | Number of Shares (000's) | Amount ($ thousands) |
|---|---|---|
| Balance at December 31, 2013 | 110,026 | 449,876 |
| Issued for cash through common share offering | 12,592 | 148,988 |
| Deferred premium on flow-through shares | - | (3,722) |
| Issued pursuant to corporate acquisition [note 5] | 4,271 | 66,243 |
| Issued for cash on exercise of stock options | 45 | 291 |
| Transfer from contributed surplus on exercise of stock options | - | 120 |
| Share issue costs, net of deferred income taxes ($1,573) | - | (4,694) |
| Balance at December 31, 2014 | **126,934** | **657,102** |
| Issued for cash through common share offerings | **14,057** | **123,429** |
| Deferred premium on flow-through shares | **-** | **(2,872)** |
| Issued pursuant to corporate acquisition [note 5] | **26,900** | **242,641** |
| Released upon vesting of restricted share units | **708** | **4,581** |
| Share issue costs, net of deferred income taxes ($1,250) | **-** | **(3,413)** |
| **Balance at September 30, 2015** | **168,599** | **1,021,468** |

There are no preferred shares issued or outstanding as of September 30, 2015 (2014 – nil).

### Common share offerings

On July 7, 2015, the Company completed a bought deal public offering and a non-brokered private placement for aggregate gross proceeds of $90.0 million. The bought deal public offering was led by a syndicate of underwriters by way of a short-form prospectus, pursuant to which the Company issued 9.775 million common shares of Kelt (which includes the exercise in full of the over-allotment option to purchase 1.275 million common shares) at a price of $8.85 per common share. Kelt issued 0.4 million common shares on a non-brokered basis to certain directors and officers of the Company and their associates at a price of $8.85 per share.

On April 16, 2015, the Company issued 26.9 million common shares to the shareholders of Artek as consideration for the acquisition (note 5). The number of common shares issued pursuant to the acquisition was determined using a share exchange ratio of 0.34, which was negotiated based on the volume weighted average trading price of Kelt common shares that traded on the TSX during the five day period ended February 20, 2015 of $8.10 per share. If the negotiated price of $8.10 per share was used, the common share consideration would be valued at $217.9 million.

Under IFRS 3 *Business Combinations*, the value of common share consideration must be recognized based on acquisition date fair value. Accordingly, the value of common share consideration of $242.6 million reported above is based on the closing price of Kelt common shares on April 16, 2015 of $9.02 per common share.

During the first quarter of 2015, the Company completed non-brokered private placements of 3.881 million flow-through common shares at a price of $8.60 per flow-through common share, resulting in gross proceeds of $33.4 million. The implied premium on the flow-through shares was determined to be $2.9 million or $0.74 per flow-through share, assuming a market price of $7.86 per ordinary common share. Certain directors and officers of the Company subscribed to purchase 1.714 million flow-through common shares for gross proceeds of $14.9 million, representing approximately 44% of the aggregate issue. Pursuant to the provisions of the *Income Tax Act* (Canada), the Company shall incur eligible Canadian development expenses (the "Qualifying Expenditures") after the respective closing dates and prior to December 31, 2015 in the aggregate amount of not less than the total gross proceeds raised from the offering. As of September 30, 2015, the Company had incurred $28.0 million of Qualifying Expenditures, leaving $5.4 million of Qualifying Expenditures to be incurred in the balance of 2015.

On December 18, 2014, the Company completed a non-brokered private placement of 0.182 million flow-through common shares at a price of $11.00 per flow-through common share, providing gross proceeds of $2.0 million. The implied premium on the flow-through shares was determined to be $0.7 million or $3.80 per flow-through share, assuming a market price of $7.20 per ordinary common share. Pursuant to the provisions in the *Income Tax Act* (Canada), the Company shall incur Canadian exploration expenses (the "Qualifying Expenditures") after December 18, 2014 and prior to December 31, 2015 in the aggregate amount of not less than $2.0 million. As of September 30, 2015, the Company had incurred the full commitment.

On July 2, 2014, the Company issued 4.3 million common shares to the shareholders of Capio as partial consideration for the acquisition (note 5). The number of common shares issued pursuant to the acquisition was negotiated based on a total value of $58.0 million divided by the five day volume weighted average price of Kelt common shares that traded on the Toronto Stock Exchange from June 9th to 13th of $13.58 per common share. Under IFRS 3 *Business Combinations*, the value of common share consideration must be recognized based on acquisition date fair value. Accordingly, the value of common share consideration of $66.2 million reported above is based on the closing price of Kelt common shares on July 2, 2014 of $15.51 per common share.

On March 25, 2014, Kelt completed brokered and non-brokered private placement equity offerings for aggregate gross proceeds of $147.0 million. Pursuant to the brokered private placement, the Company issued 9.775 million common shares at a price of $11.60 per common share and issued 1.53 million common shares on a "flow-through" basis at a price of $12.75 per flow-through share. The Company issued an additional 1.105 million flow-through common shares at a price of $12.75 per flow-through share to certain directors, officers and employees of the Company, pursuant to the non-brokered private placement. The implied premium on the flow-through shares was determined to be $3.0 million or $1.15 per flow-through share. Kelt shall, pursuant to the provisions in the *Income Tax Act* (Canada), incur eligible Canadian development expenses (the "Qualifying Expenditures") after March 25, 2014 and prior to December 31, 2014 in the aggregate amount of not less than the total amount of the gross proceeds raised from the issue of flow-through common shares of $33.6 million. As of December 31, 2014, the Company had incurred the full commitment of $33.6 million of Qualifying Expenditures.

### Stock options

Kelt has an Incentive Stock Option Plan (the "Option Plan") that provides for granting of stock options to directors, officers, employees and certain consultants. The stock options granted pursuant to the Option Plan are to be settled through the issuance of new common shares of the Company and have a maximum term of five years to expiry. The vesting schedule is determined at the discretion of the Company's Compensation Committee of the Board of Directors; stock options typically vest in equal tranches over a three year period. Each stock option granted permits the holder to purchase one common share of the Company at the stated exercise price. The exercise price is determined based on the volume weighted average trading price on the TSX over three trading days immediately prior to the date of grant.

The following table summarizes the change in stock options outstanding:

| | Number of Options (000's) | Average Exercise Price ($/share) |
|---|---|---|
| Balance at December 31, 2013 | 2,421 | 6.84 |
| Granted | 2,624 | 9.79 |
| Exercised[1] | (45) | 6.47 |
| Forfeited | (73) | 8.91 |
| Balance at December 31, 2014 | **4,927** | **8.38** |
| Granted | **235** | **8.09** |
| Forfeited | **(82)** | **9.32** |
| **Balance at September 30, 2015** | **5,080** | **8.35** |

(1) The weighted average share price on the date of exercise for stock options exercised in 2014 was $10.15 per common share.

The total fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions as follows:

| | Nine months ended September 30 | |
|---|---|---|
| | **2015** | 2014 |
| Risk free interest rate | **0.6%** | 1.3% |
| Expected life (years) | **3.0** | 3.4 |
| Expected volatility[1] | **40.2%** | 33.9% |
| Expected dividend yield | **0.0%** | 0.0% |
| Expected forfeiture rate | **2.9%** | 1.2% |
| Fair value of options granted during the year ($/share) | **2.24** | 3.20 |

(1) The Company estimates the expected volatility over the life of the option based on Kelt's historical volatility and a peer group average for junior/intermediate oil and gas companies, given there was no stock price history for the Company prior to the listing of KEL shares on March 1, 2013.

The following table summarizes information regarding stock options outstanding at September 30, 2015:

| Range of exercise prices per common share | Number of options outstanding (000's) | Weighted average remaining term (years) | Weighted average exercise price for options outstanding ($/share) | Number of options exercisable (000's) | Weighted average exercise price for options exercisable ($/share) |
|---|---|---|---|---|---|
| $5.00 to $10.00 | 3,869 | 3.2 | 7.04 | 1,463 | 6.71 |
| $10.01 to $15.00 | 1,151 | 3.5 | 12.42 | 384 | 12.42 |
| $15.01 to $20.00 | 60 | 3.7 | 15.40 | 20 | 15.40 |
| **Total** | **5,080** | **3.3** | **8.35** | **1,867** | **7.97** |

### Restricted share units

Kelt has a Restricted Share Unit Plan (the "RSU Plan") that provides for granting of RSUs to officers, employees and certain consultants. The RSUs granted under the RSU Plan are to be settled through the issuance of new common shares upon vesting. The vesting schedule is determined at the discretion of the Company's Compensation Committee of the Board of Directors; RSUs typically vest in two equal tranches with the first half vesting after two years and the second half after three years. On the vesting date, one common share is released from treasury for each RSU.

The following table summarizes the change in RSUs outstanding:

| | Number of RSUs (000's) |
|---|---|
| Balance at December 31, 2013 | 1,623 |
| Granted | 208 |
| Forfeited | (69) |
| Balance at December 31, 2014 | **1,762** |
| Granted | **243** |
| Released upon vesting | **(708)** |
| Forfeited | **(27)** |
| **Balance at September 30, 2015** | **1,270** |

### Share based compensation expense

The total fair value associated with stock options and RSUs is recognized over the service period using graded vesting, resulting in share based compensation expense as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Stock options | **995** | 1,107 | **3,330** | 2,935 |
| Restricted share units | **911** | 1,334 | **2,956** | 3,572 |
| Total share based compensation expense | **1,906** | 2,441 | **6,286** | 6,507 |

### Per share amounts

The table below summarizes the weighted average number of common shares outstanding used in the calculation of basic and diluted profit (loss) per common share:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Weighted avg. common shares outstanding, basic | **167,935** | 126,681 | **150,185** | 120,100 |
| Effect of stock options and RSUs | **771** | 2,352 | **1,051** | 2,273 |
| Weighted avg. common shares outstanding, diluted | **168,706** | 129,033 | **151,236** | 122,373 |

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for both the three and nine month periods ended September 30, 2015, the Company excluded the effect of stock options and RSUs as they were anti-dilutive.

**12. INCOME TAXES**

The Company's current and deferred income tax expense (recovery) is outlined in the following table:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Current income tax expense | **-** | - | **-** | - |
| Deferred income tax expense (recovery) | **(3,804)** | 5,281 | **(7,450)** | 15,195 |
| Total income tax expense (recovery) | **(3,804)** | 5,281 | **(7,450)** | 15,195 |

Kelt was not required to pay income taxes in the current or prior periods as the Company had sufficient income tax deductions available to shelter taxable income.

The following table reconciles income taxes calculated at the Canadian statutory rate with the actual provision for deferred income taxes per the Statement of Profit (Loss) and Comprehensive Income (Loss):

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Profit (loss) before income taxes | **(25,939)** | 6,466 | **(53,516)** | 24,567 |
| Canadian statutory tax rate | **26.0%** | 25.1% | **26.0%** | 25.1% |
| Expected income tax expense (recovery) | **(6,744)** | 1,622 | **(13,914)** | 6,164 |
| Increase (decrease) resulting from: | | | | |
| Non-deductible expenses(1) | **501** | 619 | **2,265** | 1,640 |
| Recognition of unrecognized deferred tax asset | **(494)** | (549) | **(1,484)** | (1,584) |
| Qualifying expenditures on flow-through shares | **3,651** | 3,940 | **8,101** | 10,043 |
| Premium on flow-through shares | **(302)** | (356) | **(806)** | (1,057) |
| Change in tax rates | **(259)** | 5 | **4,438** | (11) |
| True-up of tax pools | **(307)** | - | **(1,397)** | - |
| Gain on acquisition | **150** | - | **(4,653)** | - |
| Deferred income tax expense (recovery) | **(3,804)** | 5,281 | **(7,450)** | 15,195 |

(1) Non-deductible expenses primarily include share based compensation and transaction costs.

The Canadian statutory tax rate per the rate reconciliation above represents the combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the provincial tax rate is 11.0% in British Columbia. In June 2015, the Alberta government increased the general corporate tax rate from 10% to 12%, effective July 1, 2015. For corporations, such as Kelt, with a tax year spanning July 1, 2015, the two tax rates will be pro-rated resulting in an effective tax rate of 11% for Alberta in 2015, based on Kelt's December 31, 2015 year end.

During the second quarter of 2015, Kelt filed an amendment to its December 31, 2013 tax return to claim Scientific Research and Experimental Development ("SR&ED") expenditures. As the result of the SR&ED claim, the Company earned refundable investment tax credits in Alberta of $0.2 million, net of fees, which are recognized as "other income" in the Statement of Profit (Loss) and Comprehensive Income (Loss) in the current quarter. In addition, Kelt earned $1.5 million of non-refundable federal investment tax credits which can be applied against taxes payable in future periods. The impact of the SR&ED claim on deferred income taxes is reflected as a true-up adjustment in the rate reconciliation above.

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction are as follows:

| Deferred income tax asset (liability) | Balance at December 31, 2014 | Recognized in profit and CI[(1)] | Recognized in balance sheet | **Balance at September 30, 2015** |
|---|---|---|---|---|
| Derivative financial instruments | (438) | 877 | - | **439** |
| PP&E and E&E | (78,194) | (25,451) | (57,939) | **(161,584)** |
| Decommissioning obligations | 23,786 | 11,064 | 3,046 | **37,896** |
| Share and debt issue costs | 3,283 | (879) | 2,354 | **4,758** |
| Reserve from common control transaction | (10,430) | 808 | - | **(9,622)** |
| Non-capital losses[(2)] and other[(3)] | 12,111 | 21,031 | 21,840 | **54,982** |
| | (49,882) | 7,450 | (30,699) | **(73,131)** |

| Deferred income tax asset (liability) | Balance at December 31, 2013 | Recognized in profit and CI[(1)] | Recognized in balance sheet | Balance at December 31, 2014 |
|---|---|---|---|---|
| Derivative financial instruments | 133 | (571) | - | (438) |
| PP&E and E&E | (6,780) | (31,134) | (40,280) | (78,194) |
| Decommissioning obligations | 11,792 | 11,894 | 100 | 23,786 |
| Share and debt issue costs | 2,599 | (889) | 1,573 | 3,283 |
| Reserve from common control transaction | (12,445) | 2,015 | - | (10,430) |
| Non-capital losses[(2)] and other[(3)] | 6,658 | 2,851 | 2,602 | 12,111 |
| | 1,957 | (15,834) | (36,005) | (49,882) |

(1) Comprehensive income has been abbreviated as "CI".
(2) The Company's non-capital losses expire in years 2024 to 2035.
(3) As at September 30, 2015, the Company recognized a deferred tax asset in the amount of $0.2 million related to provisions for potential bad debts (2014 – nil).

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. The Company expects the following deferred income tax assets to reverse in the next twelve months: $0.4 million associated with derivative financial instruments maturing December 31, 2015; $1.7 million related to share and debt issue costs; and $0.2 million of provisions for potential bad debts. The Company does not expect any other deferred income tax assets or liabilities to reverse within the next twelve months.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, accounts receivable and accrued revenue, deposits, accounts payable and accrued liabilities, derivative financial instruments and bank debt. The fair value of the Company's financial assets and liabilities approximate their carrying value due to the short-term maturity of those instruments. In addition, the fair value of bank debt approximates its carrying value given it bears a floating rate of interest. The methodology used to determine the fair value for the Company's derivative financial instruments is described further in this note.

### Offsetting of financial instruments

Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Kelt offsets derivative contracts assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. As at September 30, 2015, there are no offsetting derivative financial contracts.

**Fair value measurements**

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The table below summarizes fair value measurements for each hierarchy level as at September 30 2015:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Financial assets** | | | |
| Derivative financial instruments | - | - | - |
| **Financial liabilities** | | | |
| Derivative financial instruments | - | 1,690 | - |

**Risk Management Overview**

The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. Profit (loss), cash flows and the fair value of financial assets and liabilities may fluctuate due to movement in market prices or as a result of the Company's exposure to credit and liquidity risks. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's management has implemented and continues to maintain and monitor risk management procedures for the benefit of the organization. The Company's risk management policies are established to: i) identify and analyze the risks faced by the Company; ii) set appropriate risk limits and controls; and iii) monitor risks and consider the implications of market conditions in relation to the Company's activities.

**Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from Kelt's receivables from joint venture partners and oil and gas marketers. The composition of the Company's accounts receivable is set out in the following table:

| Accounts receivable & accrued revenue | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Joint venture partners | **6,894** | 11,972 |
| Oil and gas marketers | **15,487** | 15,488 |
| GST input tax credits | **3,575** | 5,461 |
| Risk management contracts | **-** | 1,681 |
| Other | **415** | 490 |
| Accounts receivable & accrued revenue | **26,371** | 35,092 |

During the nine month period ended September 30, 2015, sales to four external customers each individually represented more than 10% of total revenue. Sales to these customers account for approximately 25%, 20%, 13% and 12% of total revenue, respectively. During the previous nine month period ended September 30, 2014, sales to three external customers accounted for approximately 58%, 16% and 15% of total revenue, respectively.

The carrying amount of cash and cash equivalents, accounts receivable and accrued revenue, deposits and derivative financial instrument assets represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank.

The credit risk exposure for oil and gas marketers is mitigated through the use of approved credit policies governing the Company's credit portfolio and with credit practices that limit transactions according to counterparty credit quality as well as requiring collateral where deemed appropriate. The Company does not typically obtain collateral from its oil and gas marketers or joint venture partners.

The credit risk from joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. However, the receivables are from participants in the oil and gas industry and collection of the outstanding balances is dependent on industry factors such as changes in commodity prices, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners from occasional contractual disputes that increase the potential for non-collection. The Company does have the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

The Company has International Swaps and Derivatives Association ("ISDA") agreements with certain financial institutions that are part of Kelt's Credit Facility syndicate, to address counterparty credit risk associated with derivative financial instruments. These agreements and confirmations provide some credit protection in that they generally allow parties to aggregate amounts owing to each other under all outstanding transactions and settle with a single net amount in the case of a credit event.

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30 days.

The ageing of the Company's accounts receivable is summarized in the following table:

| Accounts receivable & accrued revenue | Current | 30-60 days | 60-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| **Balance at September 30, 2015** | **22,089** | **1,689** | **167** | **2,426** | **26,371** |
| Balance at December 31, 2014 | 31,071 | 2,499 | 208 | 1,314 | 35,092 |

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Management has reviewed past due accounts receivable balances as at September 30, 2015 and expects the accounts to be fully collectible, except for approximately $0.4 million of accounts receivable which are provided for in the allowance for doubtful accounts.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities include accounts payable, derivative financial instruments and bank debt. Kelt's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation.

As at September 30, 2015, the Company had a net working capital deficit of $34.5 million. The capital intensive nature of Kelt's activities may create a working capital deficiency position during periods with high levels of capital investment. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. As discussed further under the Capital Management section to follow, Kelt targets a relatively low debt to trailing funds from operations ratio. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. The Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

As at September 30, 2015, the Company had drawn $147.8 million on its $300.0 million revolving committed term Credit Facility. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. Repayments of principal are not required provided that the borrowings under the Credit Facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Company is not subject to any financial covenants under the Credit Facility and as at September 30, 2015, Kelt is in compliance with all other covenants. The lending syndicate has substantially completed their semi-annual borrowing base review and the Company expects to finalize terms of the amending agreement in mid-November. The Company expects that the total commitment under the Credit Facility will remain unchanged at $300.0 million, however current availability is expected to be reduced to $275.0 million, with additional funds available up to the total Credit Facility commitment of $300.0 million subject to approval of the lending syndicate. There are no expected changes to the revolving period, covenants or applicable margins on borrowing costs. Although Kelt believes that these expectations and the assumptions on which they are based to be reasonable, undue reliance should not be placed on these forward-looking statements because Kelt cannot give assurance that they will be realized. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at September 30, 2015:

| | Within 1 Year | 1 to 5 Years | More than 5 Years | Total |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 60,938 | - | - | 60,938 |
| Derivative financial instruments | 1,690 | - | - | 1,690 |
| Bank debt and estimated interest(1) | 5,498 | 151,778 | - | 157,276 |
| **Total** | **68,126** | **151,778** | **-** | **219,904** |

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate of 3.7% for the quarter ended September 30, 2015, applied to the principal balance outstanding as at that date. Principal repayment of the Company's revolving Credit Facility is assumed on April 29, 2017.

**Market Risks**

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's operations, net profit or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns.

The Company uses derivative financial instruments from time to time in order to manage market risks. All such transactions are conducted in accordance with the Company's established risk management procedures.

*Commodity price risk*

Inherent to the business of producing oil and gas, the Company's cash provided by operating activities is subject to commodity price risk. Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and U.S. dollar. The Company mitigates commodity price risk through the use of various derivative financial instruments.

The Company's current risk management policies permit management to enter into commodity agreements, provided that: i) the contracts are not entered into for speculative purposes; ii) that the notional quantity hedged, at the time of entering into the contract, does not exceed 65% of average daily production; and iii) that the term does not exceed 36 months.

The following table summarizes the Company's commodity price risk management contracts outstanding as of September 30, 2015:

| Commodity | Notional Volume | Pricing Point | Fixed Contract Price | Remaining Term | Fair value Asset (Liability) |
|---|---|---|---|---|---|
| Natural Gas | 30,000 mmbtu/d | Nymex Henry Hub AECO 5A | NYMEX minus US$0.625/mmbtu | October 1, 2015 to December 31, 2015 | **(686)** |

The fair value of the commodity swap contract is sensitive to changes in the NYMEX-AECO basis differential. If the differential increases (decreases) by US$0.05, the fair market value of the contract would increase (decrease) by approximately $0.2 million.

*Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. An increase (decrease) of 1% in market interest rates would have decreased (increased) shareholders' equity and profit by $0.8 million for the nine month period ended September 30, 2015, based on the Company's average debt balance outstanding of $147.9 million in the period.

The following table summarizes the Company's interest rate risk management contracts outstanding as of September 30, 2015:

| Contract Type | Notional Amount | Reference Price | Fixed Contract Price | Remaining Term | Fair value Asset (Liability) |
|---|---|---|---|---|---|
| Interest Rate Swap | $100,000,000 | CDOR | 0.925% | October 1, 2015 to June 30, 2017 | **(313)** |

The fair value of the interest rate swap is sensitive to changes in the Canadian Dollar Offered Rate ("CDOR"). If the CDOR rate increases (decreases) by 10 basis points, the fair market value of the contract would increase (decrease) by approximately $0.2 million.

*Foreign exchange rate risk*

Foreign exchange risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. While all of the Company's oil and natural gas sales are transacted in Canadian dollars, the Company is exposed to the risk of changes in the Canadian/U.S. dollar exchange rate because the Company's realized price is directly influenced by U.S. dollar benchmark prices. The effects of foreign exchange fluctuations are embedded in the Company's results and the total effect of foreign exchange fluctuations are not separately identifiable.

As outlined in note 15, the Company has commitments for firm gas transportation service under contracts denominated in U.S. dollars. As at September 30, 2015, Kelt's total commitment over the term of the USD contracts is CA$21.1 million, translated at the spot rate on September 30, 2015 of $1.3345. If the Canadian/US dollar exchange rate increases (decreases) by CA$0.05, the total commitment would increase by approximately $0.3 million (decrease by approximately $0.2 million).

In order to mitigate a portion of the risk relating to revenue that is subject to fluctuations in the exchange rate, the Company may enter into commodity swap transactions whereby commodity prices denominated in U.S. dollars are converted to Canadian dollars. There are no such contracts in place as at September 30, 2015.

The following table summarizes the Company's foreign exchange risk management contracts outstanding as of September 30, 2015:

| Contract Type | Notional Amount | Reference Price | Fixed Contract Price | Remaining Term | Fair value Asset (Liability) |
|---|---|---|---|---|---|
| Foreign exchange swap | US$3,000,000 per month | Bank of Canada noon rate | CA$/US$ 1.2580 | October 1, 2015 to December 31, 2015 | **(691)** |

The fair value of the currency exchange contract is sensitive to changes in foreign exchange rates. If the Canadian/US dollar exchange rate increases (decreases) by CA$0.05, the fair market value of the contract would decrease (increase) by approximately $0.5 million.

The table below summarizes realized and unrealized gains (losses) on risk management contracts:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Realized gain (loss) | **(812)** | (536) | **1,269** | (3,196) |
| Unrealized gain (loss) | **(1,762)** | 2,468 | **(3,435)** | 622 |
| Gain (loss) on derivative financial instruments | **(2,574)** | 1,932 | **(2,166)** | (2,574) |

**Capital Management**

The Company's capital structure is comprised of shareholders' equity, bank debt and working capital. Kelt's objectives when managing its capital structure is to maintain financial flexibility in order to meet financial obligations, as well as to finance future growth through capital expenditures relating to exploration, development and acquisition activities.

The Company monitors its capital structure and short-term financing requirements using a debt to trailing funds from operations ratio, which is a non-GAAP financial measure.

| | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Bank debt | **147,801** | 46,929 |
| Working capital deficiency | **34,456** | 57,501 |
| Net debt | **182,257** | 104,430 |
| Trailing funds from operations(1)(2) | **66,404** | 118,656 |
| Debt to trailing funds from operations ratio | **2.7** | 0.9 |

(1) Funds from operations is a non-GAAP measure which is calculated as cash provided by operating activities, before transaction costs, settlement of decommissioning obligations and changes in non-cash operating working capital.

(2) Trailing funds from operations is annualized based on the most recent quarter's funds from operations.

Kelt targets a debt to trailing funds from operations ratio of less than 2.0 times. As a result of severely depressed commodity prices during the first nine months of 2015, Kelt's trailing debt to funds from operations ratio as at September 30, 2015 was 2.7 times. The Company manages its capital structure and makes adjustments according to market conditions in order to maintain flexibility to achieve its objectives stated above. To adjust its capital structure, the Company may increase or decrease capital expenditures, issue new shares, issue new debt or repay existing debt.

Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at September 30, 2015, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

## 14. FINANCING EXPENSES

The following table summarizes significant components of the Company's financing expenses:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Interest and fees on bank debt | **1,776** | 113 | **4,627** | 394 |
| Accretion of decommissioning obligations [note 10] | **784** | 443 | **2,033** | 1,232 |
| Financing expense | **2,560** | 556 | **6,660** | 1,626 |

## 15. COMMITMENTS

As of September 30, 2015, the Company is committed to future payments under the following agreements:

| *(CA$ thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter |
|---|---|---|---|---|---|---|
| Operating lease – office buildings | 304 | 1,235 | 1,257 | 497 | 114 | 19 |
| Operating lease – vehicles | 125 | 214 | 136 | 33 | - | - |
| Flow-through shares | 5,380 | - | - | - | - | - |
| Firm transportation commitments – CAD | 796 | 3,182 | 3,182 | 3,182 | 1,729 | 21 |
| Firm transportation commitments – USD(1) | 977 | 11,721 | 8,446 | - | - | - |
| **Total annual commitments** | **7,582** | **16,352** | **13,021** | **3,712** | **1,843** | **40** |

(1) Commitments under firm transportation contracts denominated in US dollars are translated to Canadian dollars at the spot rate on September 30, 2015 of $1.3345.

Payments under the office building operating leases relate to the Company's head office in Calgary, Alberta, and field offices in Grande Prairie, Alberta and Fort St. John, British Columbia. The leases expire on April 30, 2018, February 28, 2020, and November 30, 2015, respectively, if not extended.

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Accounts receivable and accrued revenue | **652** | (4,236) | **21,717** | (17,329) |
| Prepaid expenses and deposits | **(148)** | (316) | **805** | (322) |
| Accounts payable and accrued liabilities | **5,837** | 25,518 | **(49,568)** | 35,575 |
| Change in non-cash working capital | **6,341** | 20,966 | **(27,046)** | 17,924 |
| Relating to: | | | | |
| Operating activities | **(2,073)** | 1,127 | **9,101** | (1,602) |
| Investing activities | **8,414** | 19,839 | **(36,147)** | 19,526 |
| Change in non-cash working capital | **6,341** | 20,966 | **(27,046)** | 17,924 |

During the reporting period, the Company made the following cash outlays in respect of interest and taxes:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Interest and standby fees on bank debt | **1,333** | 113 | **4,766** | 222 |
| Taxes | **-** | - | **-** | - |

## 17. RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the first nine months ended September 30, 2015, the Company incurred $0.6 million (2014 – $0.4 million) in legal fees and disbursements, of which, less than $0.1 million is payable at September 30, 2015 ($0.1 million at December 31, 2014). The Company expects to continue using the services of this law firm from time to time.

**ABBREVIATIONS**

| | |
|---|---|
| bbls | barrels |
| mbbls | thousand barrels |
| bbls/d | barrels per day |
| BOE | barrels of oil equivalent |
| mBOE | thousand barrels of oil equivalent |
| BOE/d | barrels of oil equivalent per day |
| mcf | thousand cubic feet |
| mmcf | million cubic feet |
| bcf | billion cubic feet |
| mmcf/d | million cubic feet per day |
| mmbtu | million British Thermal Units |
| GJ | gigajoules |
| LT | long tonnes |
| AECO-C | Alberta Energy Company "C" Meter Station of the Nova Pipeline System |
| WTI | West Texas Intermediate |
| NYMEX | New York Mercantile Exchange |
| API | American Petroleum Institute |
| MD&A | Management's Discussion and Analysis |
| Q1 | First quarter ended March 31st |
| Q2 | Second quarter ended June 30th |
| Q3 | Third quarter ended September 30th |
| Q4 | Fourth quarter ended December 31st |
| CEE | Canadian exploration expenses |
| CDE | Canadian development expenses |
| COGPE | Canadian oil and gas property expenses |
| UCC | Undepreciated capital cost |
| NCL | Non-capital losses |
| SIC | Share issue costs |
| CGU | Cash generating unit |
| FVLCD | Fair value less costs of disposal |

**CONVERSION OF UNITS**

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 mmbtu = 1.054 GJ

0.949 mmbtu = 1 GJ

Natural gas is equated to oil on the basis of 6 mcf = 1 BOE

Sulphur is equated to gas on the basis of 1LT = 10 mcf (1 BOE = 0.6 LT)

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Robert J. Dales** [2, 3, 4, 6]
President, Valhalla Ventures Inc.

**William C. Guinan** [1, 5, 6]
Partner, Borden Ladner Gervais LLP

**Eldon A. McIntyre** [2, 3, 4, 6]
President, Jarrod Oils Ltd.

**Neil G. Sinclair** [2, 3, 4, 5]
President, Sinson Investments Ltd.

**David J. Wilson** [5]
President & Chief Executive Officer,
Kelt Exploration Ltd.

1 chairman of the board
2 member of the audit committee
3 member of the reserves committee
4 member of the compensation committee
5 member of the health, safety and environment committee
6 member of the nominating committee

### OFFICERS

**David J. Wilson**
President & Chief Executive Officer

**Sadiq H. Lalani**
Vice President, Finance & Chief Financial Officer

**Douglas J. Errico**
Vice President, Land

**Alan G. Franks**
Vice President, Production

**Douglas O. MacArthur**
Vice President, Operations

**Patrick Miles**
Vice President, Exploration

### HEAD OFFICE

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Calgary, Alberta T2P 3H2

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### REGISTRAR AND TRANSFER AGENT

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### LEGAL COUNSEL

Borden Ladner Gervais LLP
Centennial Place, East Tower,
Suite 1900, 520 Third Avenue S.W.
Calgary, Alberta T2P 0R3

### BANKERS

National Bank of Canada
Suite 1800, 311 Sixth Avenue S.W.
Calgary, Alberta T2P 3H2

### AUDITORS

PricewaterhouseCoopers LLP
Suite 3100, 111 Fifth Avenue S.W.
Calgary, Alberta T2P 5L3

### EVALUATION ENGINEERS

Sproule Associates Limited
Suite 900, 140 Fourth Avenue S.W.
Calgary, Alberta T2P 3N3

### STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common Shares “KEL”

SUITE 300, EAST TOWER
311 SIXTH AVENUE SOUTH WEST
CALGARY, ALBERTA T2P 3H2