THIRD QUARTER REPORT

AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2014**	2013	%	**2014**	2013	%
FINANCIAL						
Revenue, before royalties and financial instruments	**61,136**	12,388	394%	**160,295**	28,113	470%
Funds from operations[(1)]	**31,799**	5,473	481%	**85,839**	14,260	502%
Basic ($/ common share)[(1)]	**0.25**	0.06	317%	**0.71**	0.22	223%
Diluted ($/ common share)[(1)]	**0.25**	0.06	317%	**0.70**	0.21	233%
Profit (loss) and comprehensive income (loss)	**1,185**	(2,400)	-	**9,372**	(3,277)	-
Basic ($/ common share)	**0.01**	(0.03)	-	**0.08**	(0.05)	-
Diluted ($/ common share)	**0.01**	(0.03)	-	**0.08**	(0.05)	-
Total capital expenditures, net of dispositions	**246,942**	42,228	485%	**324,434**	97,814	232%
Total assets	**820,241**	333,832	146%	**820,241**	333,832	146%
Bank debt	**-**	-	-	**-**	-	-
Working capital deficiency (surplus)	**37,219**	(123,774)	-	**37,219**	(123,774)	-
Shareholders' equity	**614,384**	294,820	108%	**614,384**	294,820	108%
Weighted average shares outstanding (000's)						
Basic	**126,681**	89,262	42%	**120,100**	66,234	81%
Diluted	**129,033**	89,829	44%	**122,373**	66,560	84%
OPERATIONS						
Average daily production						
Oil (bbls/d)	**3,913**	566	591%	**2,982**	417	615%
NGLs (bbls/d)	**1,173**	356	229%	**886**	233	280%
Gas (mcf/d)	**52,713**	22,285	137%	**47,662**	16,269	193%
Combined (BOE/d)	**13,872**	4,636	199%	**11,812**	3,361	251%
Production per million common shares (BOE/d)[(1)]	**110**	52	112%	**98**	51	92%
Average realized prices, after financial instruments						
Oil ($/bbl)	**89.82**	88.30	2%	**91.58**	90.33	1%
NGLs ($/bbl)	**62.62**	51.50	22%	**64.56**	49.77	30%
Gas ($/mcf)	**4.43**	2.79	59%	**5.14**	3.26	58%
Operating netbacks[(1)] ($/BOE)						
Oil and gas revenue	**47.91**	29.05	65%	**49.71**	30.63	62%
Cash premium on financial instruments	**-**	0.54	-100%	**-**	0.25	-100%
Realized loss on financial instruments	**(0.42)**	(1.42)	-70%	**(0.99)**	(0.41)	141%
Average realized price, after financial instruments	**47.49**	28.17	69%	**48.72**	30.47	60%
Royalties	**(7.24)**	(5.56)	30%	**(6.80)**	(4.18)	63%
Production and transportation expense	**(14.44)**	(9.67)	49%	**(14.52)**	(10.30)	41%
Operating netback[(1)]	**25.81**	12.94	99%	**27.40**	15.99	71%
Undeveloped land						
Gross acres	**416,412**	196,999	111%	**416,412**	196,999	111%
Net acres	**274,188**	124,376	120%	**274,188**	124,376	120%

(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, 2014.

Kelt achieved record production levels in the third quarter of 2014. Average production for the three months ended September 30, 2014 was 13,872 BOE per day, up 199% from average production of 4,636 BOE per day during the third quarter of 2013. On a production per share basis, the third quarter of 2014 was up 112% compared to the third quarter of 2013. Daily average production in the third quarter of 2014 was 22% higher than the average production of 11,381 BOE per day in the second quarter of 2014.

For the three months ended September 30, 2014, revenue was $61.1 million, funds from operations was $31.8 million ($0.25 per share, diluted) and profit was $1.2 million ($0.01 per share, diluted). At September 30, 2014, bank debt, net of working capital was $37.2 million.

During the three months ended September 30, 2014, Kelt drilled 11 gross (9.3 net) oil and gas wells, with a 100% success rate.

The Company participated in the drilling of three (1.3 net) horizontal wells at Inga/Fireweed in British Columbia. Two (0.8 net) wells drilled at Inga were in the Doig formation and one (0.5 net) well drilled at Fireweed was in the Montney formation. Drilling results continue to meet expectations in the Doig wells with high free condensate rates. The Montney well at Fireweed resulted in equally significant production rates with initial 60 day average production of approximately 704 BOE (352 BOE net) per day, of which 411 barrels (205 barrels net) per day or 58% was free condensate. Kelt's production at Inga/Fireweed averaged approximately 2,317 BOE per day during the third quarter of 2014.

Kelt drilled two (2.0 net) horizontal wells at Karr, Alberta targeting the Upper Montney formation. Both these wells are in close proximity to the Company's existing producing wells and are expected to be completed in late December/early January. During the second quarter of 2014, Kelt drilled its first horizontal well (75% WI) in the Middle Montney. This well has now been completed and has just been put on production test. Kelt's production at Karr averaged approximately 1,318 BOE per day during the third quarter of 2014 including approximately 14 days of outage due to gas plant downtime.

In the Company's Grande Prairie core area, Kelt drilled three (3.0 net) horizontal wells at Pouce Coupe. One well was drilled in the Upper Montney formation and was successfully completed as a gas well. The other two wells were drilled in the Lower Montney formation targeting oil and are expected to be completed in the fourth quarter. At Valhalla/La Glace, Kelt drilled three (3.0 net) horizontal wells in the Montney oil formation. These wells have now been completed and are expected to be on-stream in the fourth quarter of 2014. One of these wells was drilled as a farm-in option that earned the Company additional Montney rights in 12,160 acres (19 sections) of land. Kelt's production at Grande Prairie averaged approximately 7,498 BOE per day during the third quarter of 2014.

Kelt's previously disclosed capital expenditure budget of $428.0 million for 2014 remains unchanged. This budget includes the $160.0 million for acquisitions, net of dispositions. Net capital expenditures incurred during the first nine months of the year was $324.4 million. As a result, the Company expects to have a very busy fourth quarter in 2014, whereby $103.6 million in exploration and development capital expenditures are forecasted. Kelt plans to drill 15 gross (10.5 net) horizontal wells in the fourth quarter of 2014. Two of these wells are exploratory in the Company's Grande Cache area, targeting an oil prospect and a liquids-rich gas prospect.

Kelt expects production in 2014 to average approximately 12,600 BOE per day, up from the Company's previous guidance of 12,250 BOE per day. Average production for 2014 is expected to be weighted 27% oil, 8% NGLs, and 65% gas; however, operating income in 2014 is expected to be derived 57% from oil production, 12% from NGLs production, and 31% from gas production. The Company has increased its forecast and now expects to exit 2014 with approximately 15,800 BOE per day (previous forecast was 15,300 BOE per day) of production, weighted 33% oil, 8% NGLs, and 59% gas.

During recent weeks, crude oil prices have dropped significantly leading to a selloff in publicly traded energy stocks. Kelt has built in lower forecasted commodity prices into its budget to reflect current market conditions. The Company is well positioned financially and expects that it will have sufficient financial flexibility to carry out its operations during the remainder of the year and pursue new opportunities as they arise. Management is excited about the Company's prospects and looks forward to updating shareholders with 2015 guidance on or about November 17, 2014.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
November 12, 2014

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. 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 12, 2014 and should be read in conjunction with the Company's unaudited condensed interim financial statements and related notes as at and for the three and nine months ended September 30, 2014 and its audited annual financial statements and MD&A as at and for the year ended December 31, 2013. 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, such as Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the condensed interim financial statements for issue on November 12, 2014.

The Company was incorporated as a wholly owned subsidiary of Celtic Exploration Ltd. ("Celtic"), for the purposes of participating in a Plan of Arrangement (the "Arrangement") between ExxonMobil Canada Ltd. ("ExxonMobil Canada"), ExxonMobil Celtic ULC (formerly 1690731 Alberta ULC) (the "Purchaser"), Celtic and Kelt. Pursuant to the Arrangement, the Purchaser purchased all of Celtic's outstanding common shares ("Celtic Shares"), including Celtic Shares issued upon conversion of Celtic's 5% convertible debentures, at a cash price of $24.50 per Celtic Share. Additionally, Celtic shareholders received one-half (1/2) of a share of Kelt for each Celtic Share.

Pursuant to the Arrangement and a conveyance agreement (the "Conveyance Agreement") entered into by Celtic and Kelt upon closing of the Arrangement on February 26, 2013, Celtic transferred certain petroleum and natural gas assets (the "Celtic Assets") to Kelt in exchange for $142.0 million of common share consideration (the "Common Control Transaction"). The Celtic Assets transferred pursuant to the Common Control Transaction included all of Celtic's rights, title, estate and interest in the petroleum, natural gas and related hydrocarbon rights and related personal property interests within, upon or under the lands and leases, including: a liquids-rich gas property in the Inga area of northeastern British Columbia; a gas property in the Grande Cache area of Alberta; and an oil prospect in the Karr area of west central Alberta.

Kelt commenced active operations on February 27, 2013 following completion of the Arrangement and the Common Control Transaction. Prior to completion of the Arrangement on February 26, 2013, the Company did not have any assets, liabilities, or operations.

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 concerning the anticipated increase in the authorized borrowing base available under the Company's Credit Facility (defined herein), the timing of future development capital expenditures and the extent of the size of Kelt's reserves. Statements relating to "reserves" or "resources" are deemed to be forward looking statements as they involve the implied assessment, based on current estimates and assumptions that the reserves and resources can be profitably produced in the future.

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 settlement of decommissioning obligations and 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 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)	**2014**	2013	%	**2014**	2013	%
Oil and gas sales	**61,136**	12,388	394%	**160,295**	28,113	470%
Cash premium on financial instruments	**-**	228	-100%	**-**	228	-100%
Realized loss on financial instruments	**(536)**	(606)	-12%	**(3,196)**	(378)	746%
Royalties	**(9,245)**	(2,373)	290%	**(21,919)**	(3,835)	472%
Production expenses	**(15,075)**	(2,685)	461%	**(39,113)**	(6,370)	514%
Transportation expenses	**(3,345)**	(1,433)	133%	**(7,681)**	(3,085)	149%
Operating income	**32,935**	5,519	497%	**88,386**	14,673	502%
Production (mBOE)	**1,276**	426	199%	**3,225**	918	251%
Operating netback ($/BOE)	**25.81**	12.94	99%	**27.40**	15.99	71%

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)	**2014**	2013	%	**2014**	2013	%
Cash provided by operating activities	**32,780**	7,583	332%	**84,091**	13,025	546%
Settlement of decommissioning obligations	**146**	-	-	**146**	-	-
Change in non-cash working capital	**(1,127)**	(2,110)	-47%	**1,602**	1,235	30%
Funds from operations	**31,799**	5,473	481%	**85,839**	14,260	502%

"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.

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.

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 1 of the December 31, 2013 annual financial statements. There have been no significant changes in the Company's significant judgments and estimates applied during the interim period ended September 30, 2014 relative to the most recent annual financial statements as at and for the year ended December 31, 2013.

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, 2014 to September 30, 2014 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. 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

FINANCIAL AND OPERATING HIGHLIGHTS

- During the third quarter of 2014, production averaged 13,872 BOE per day, representing an increase of 22% from 11,381 BOE per day during the second quarter of 2014 and an increase of 199% from 4,636 BOE per day during the third quarter of 2013;
- The Company generated funds from operations in the amount of $31.8 million ($0.25 per common share, basic and diluted) during the three month period ended September 30, 2014. During the same quarter of the previous year, funds from operations was $5.5 million ($0.06 per common share, basic and diluted). This equates to an absolute increase of 481% or a 317% increase in funds from operations per common share, diluted;
- During the third quarter of 2014, corporate royalty rates averaged 15.1% of revenue; production and transportation expense, combined, averaged $14.44 per BOE; and G&A expense averaged $0.73 per BOE;
- Drilled 7 (7.0 net) oil wells and 4 (2.3 net) gas wells during the third quarter of 2014 with a success rate of 100%; and
- On July 2, 2014, the Company completed the acquisition of Capio Exploration Ltd. ("Capio"), a private Canadian oil and gas company, which held crude oil and natural gas assets located at Valhalla/La Glace, adjacent to the Kelt's core producing areas at Pouce Coupe/Spirit River in west central Alberta. The consideration paid by Kelt, after closing adjustments, consisted of $72.1 million in cash and the issuance of 4,270,956 common shares. In addition, Kelt assumed Capio's working capital deficit of $37.4 million which included $32.5 million of bank indebtedness that was repaid by Kelt at closing.

REVENUE

(CA$ thousands, except as otherwise indicated)	Three months ended September 30			Nine months ended September 30		
	2014	2013	%	**2014**	2013	%
Average daily production:						
Oil (bbls/d)	**3,913**	566	591%	**2,982**	417	615%
NGLs (bbls/d)	**1,173**	356	229%	**886**	233	280%
Gas (mcf/d)	**52,713**	22,285	137%	**47,662**	16,269	193%
Combined (BOE/d)	**13,872**	4,636	199%	**11,812**	3,361	251%
Average realized prices, before financial instruments:						
Oil ($/bbl)	**91.48**	95.56	-4%	**95.32**	91.64	4%
NGLs ($/bbl)	**62.04**	51.50	20%	**65.18**	49.77	31%
Gas ($/mcf)	**4.43**	2.79	59%	**5.14**	3.26	58%
Combined ($/BOE)	**47.91**	29.05	65%	**49.71**	30.63	62%
Average realized prices, after financial instruments:						
Oil ($/bbl)	**89.82**	88.30	2%	**91.58**	90.33	1%
NGLs ($/bbl)	**62.62**	51.50	22%	**64.56**	49.77	30%
Gas ($/mcf)	**4.43**	2.79	59%	**5.14**	3.26	58%
Combined ($/BOE)	**47.49**	28.17	69%	**48.72**	30.47	60%
Revenue, before royalties and financial instruments:						
Oil	**32,933**	4,975	562%	**77,606**	10,435	644%
NGLs	**6,695**	1,685	297%	**15,769**	3,167	398%
Gas	**21,508**	5,728	275%	**66,920**	14,511	361%
Total revenue, before royalties and financial instruments	**61,136**	12,388	394%	**160,295**	28,113	470%

The Company commenced active operations on February 27, 2013 following the completion of the Arrangement and conveyance of the Celtic Assets from Celtic to Kelt on February 26, 2013, at which time, production from the Celtic assets was approximately 3,500 BOE per day. Since commencing active operations, Kelt has increased production by 296% to an average of 13,872 BOE per day during the third quarter of 2014, through a combination of strategic acquisitions and an active drilling program, as outlined further below:

- On July 2, 2014, the Company completed a corporate acquisition of a private company with the majority of crude oil and natural gas assets located at Valhalla/La Glace in west central Alberta. Production from these assets was approximately 2,300 BOE per day at the time of the acquisition.
- On December 20, 2013, the Company completed a property acquisition in the Pouce Coupe/Spirit River area of west central Alberta. The acquired assets contributed to daily average production of approximately 4,800 BOE per day at the time of the acquisition. Approximately 210 BOE per day of the acquired non-core oil production was subsequently disposed on February 10, 2014, but was offset by approximately 250 BOE per day of oil and gas production from a minor property acquisition in the Spirit River area which was completed on March 7, 2014.
- On August 9, 2013, the Company acquired petroleum and natural gas assets at Fireweed, British Columbia. Production on the acquisition date was approximately 600 BOE per day.
- The Company also has an active drilling program in its core areas at Inga/Fireweed, Karr and Pouce Coupe/Spirit River. The remaining increase in daily average production is a result of incremental production from new wells drilled that more than offset corporate production declines.

During the three month period ended September 30, 2014, the Company earned revenue before royalties and financial instruments of $61.1 million, an increase of 394% compared to $12.4 million in the same quarter of the previous year. The increase in sales revenue is a result of higher production volumes combined with a significant increase in natural gas prices and appreciation of the US dollar. The Company realized a combined average sales price of $47.91 per BOE ($47.49 after financial instruments) during the third quarter of 2014, a 65% increase from $29.05 per BOE ($28.17 after financial instruments) during the third quarter of 2013. The increase in the combined average realized sales price is also due to an increase in the proportion of total production being more heavily weighted to oil and NGLs in the current quarter. Specifically, oil and NGLs accounted for 37% of total production during the third quarter of 2014 compared to 20% during the third quarter of 2013.

During the nine month period ended September 30, 2014, revenue before royalties and financial instruments increased by 470% to $160.3 million compared to $28.1 million during the nine month period ended September 30, 2013. The increase in sales revenue is a result of higher production volumes combined with strong commodity prices and appreciation of the US dollar. The Company realized a combined average sales price of $49.71 per BOE ($48.72 after financial instruments) during the first nine months of 2014, a 62% increase from $30.63 per BOE ($30.47 after financial instruments) during the same period of the previous year. The increase in the combined average realized sales price is also due to an increase in the proportion of total production being more heavily weighted to oil and NGLs in the current period.

BENCHMARK COMMODITY PRICES

The following table summarizes average historical benchmark commodity prices for the periods indicated, which represent the periods over which Kelt had active operations:

	Q3 2014	Q3 2013	% change	**YTD 2014**	Mar-Sept 2013	% change
WTI Cushing Oklahoma (US$/bbl)(1)	**97.17**	105.82	-8%	**99.60**	98.60	1%
Average FX rate (CA$/US$)(1)	**1.0888**	1.0386	5%	**1.0943**	1.0357	6%
WTI Cushing Oklahoma (CA$/bbl)(2)	**105.76**	109.91	-4%	**108.99**	102.16	7%
Canadian Light Sweet (CA$/bbl)(1)(3)	**93.65**	-	-	**92.80**	-	-
As a % of CA$ WTI	**89%**	-	-	**85%**	-	-
Pentane (CA$/bbl)(1)	**101.72**	111.30	-9%	**109.74**	104.72	5%
As a % of CA$ WTI	**96%**	101%	-5%	**101%**	103%	-2%
Butane (CA$/bbl)(1)	**66.40**	71.41	-7%	**69.83**	69.64	0%
As a % of CA$ WTI	**63%**	65%	-3%	**64%**	68%	-6%
Propane (CA$/bbl)(1)	**32.99**	36.90	-11%	**50.18**	40.29	25%
As a % of CA$ WTI	**31%**	34%	-7%	**46%**	39%	17%
NYMEX Henry Hub (US$/mmbtu)(4)	**4.07**	3.60	13%	**4.51**	3.78	19%
AECO 5A (CA$/GJ)(5)	**3.81**	2.31	65%	**4.56**	2.89	58%

(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 2013.
(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)

OIL OPERATIONS

(CA$/bbl)	Three months ended September 30 **2014**	2013	%	Nine months ended September 30 **2014**	2013	%
Oil sales	**91.48**	95.56	-4%	**95.32**	91.64	4%
Cash premium on financial instruments	**-**	4.39	-100%	**-**	2.01	-100%
Realized loss on financial instruments	**(1.66)**	(11.65)	-86%	**(3.74)**	(3.32)	13%
Average realized price, after financial instruments	**89.82**	88.30	2%	**91.58**	90.33	1%
Royalties	**(18.57)**	(29.38)	-37%	**(17.73)**	(19.45)	-9%
Production and transportation expense	**(16.31)**	(11.95)	36%	**(16.45)**	(15.78)	4%
Operating netback	**54.94**	46.97	17%	**57.40**	55.10	4%

The Company realized an average price, before financial instruments, of $91.48 per barrel and $95.32 per barrel during the three and nine month periods ended September 30, 2014, respectively. The WTI index oil price averaged US$97.17 per barrel during the third quarter of 2014 and US$99.60 per barrel year-to-date in 2014. Compared to the corresponding periods in 2013, Kelt's realized oil price was positively impacted by appreciation of the US dollar in 2014. The average price realized by the Company for oil sales reflects a discount of 14.2% and 13.0%, respectively, relative to the Canadian dollar equivalent WTI price during the three and nine month periods of 2014. The widening of the discount during the quarter reflects new oil production acquired at Valhalla/La Glace which has a higher sour content. The impact is partially offset by a narrowing of the discount between the Canadian Light Sweet index price relative to the Canadian dollar equivalent WTI price.

Oil royalties averaged 20.3% and 18.6%, respectively, during the three and nine month periods ended September 30, 2014. During the corresponding periods of the previous year, oil royalties averaged 30.7% and 21.2%. The decrease in the Company's average oil royalty rate compared to the previous year is primarily due to oil production from new drills which qualify for a minimum 5% royalty pursuant to various Alberta royalty incentive programs. The increase in average oil royalties in the third quarter of 2014 relative to the first half of 2014 is a result of oil production from acquired properties at Valhalla/La Glace which carry a higher average royalty rate than Kelt's historical average.

Oil production and transportation expenses, combined, averaged $16.31 per barrel and $16.45 per barrel during the three and nine month periods ended September 30, 2014. The increase in per unit costs compared to the same periods of the previous year is due to acquired properties that carry higher costs than Kelt's historical average.

NGL OPERATIONS

(CA$/bbl)	Three months ended September 30 **2014**	2013	%	Nine months ended September 30 **2014**	2013	%
NGLs sales	**62.04**	51.50	20%	**65.18**	49.77	31%
Realized gain/(loss) on financial instruments	**0.58**	-	-	**(0.62)**	-	-
Average realized price, after financial instruments	**62.62**	51.50	22%	**64.56**	49.77	30%
Royalties	**(8.51)**	(10.31)	-17%	**(9.32)**	(7.89)	18%
Production and transportation expense	**(10.62)**	(10.30)	3%	**(11.97)**	(12.58)	-5%
Operating netback	**43.49**	30.89	41%	**43.27**	29.30	48%

During the three and nine month periods ended September 30, 2014, the Company's average realized price for NGLs, before financial instruments, increased by 20% and 31%, respectively, compared to the corresponding periods of the previous year. Although benchmark prices for NGLs decreased in the third quarter of 2014 compared to the third quarter of 2013, the Company's average realized price increased due to a higher weighting of pentane and butane sales. During the nine month period ended September 30, 2014, the Company benefited from a combination of higher benchmark NGL prices as well as the shift in product mix to premium priced NGLs. Specifically, during the first nine months of 2014, pentane and butane sales represented 65% of the Company's total NGL sales volumes compared to 51% in the same nine month period of the prior year.

NGL royalties averaged 13.7% and 14.3%, respectively, during the three and nine month periods ended September 30, 2014. During the corresponding periods of the previous year, NGL royalties averaged 20.0% and 15.8%. The decrease in average NGLs royalties is a result of production from new drills which qualify for a minimum 5% royalty pursuant to various Alberta royalty incentive programs as well as gas cost allowance credits allocated to NGLs production.

Per unit production and transportation expenses were relatively flat compared to the corresponding three and nine month periods of the previous year. The decrease in per unit expenses in the third quarter of 2014 relative to the first half of 2014 is due to a higher volume of NGL production sharing fixed costs.

GAS OPERATIONS

	Three months ended September 30			Nine months ended September 30		
(CA$/mcf)	**2014**	2013	%	**2014**	2013	%
Gas sales	**4.43**	2.79	59%	**5.14**	3.26	58%
Royalties	**(0.34)**	(0.25)	36%	**(0.40)**	(0.25)	60%
Production and transportation expense	**(2.35)**	(1.54)	53%	**(2.34)**	(1.54)	52%
Operating netback	**1.74**	1.00	74%	**2.40**	1.47	63%
Barrel of oil equivalent netback ($/BOE)	**10.44**	6.00	74%	**14.40**	8.82	63%

During the three month period ended September 30, 2014, the Company realized an average price of $4.43 per MCF for gas sales, an increase of 59% compared to $2.79 per MCF during same three month period of the previous year. During the nine month period ended September 30, 2014, the Company realized an average price of $5.14 per MCF for gas sales, an increase of 58% compared to $3.26 per MCF during same nine month period of the previous year. The AECO 5A gas index price increased 58% to $4.56 per GJ during the first nine months of 2014 compared to $2.89 per GJ during the first nine months of 2013. Kelt receives a premium to the AECO gas index price due to the higher heat content of its gas sales.

Gas royalties averaged 7.6% and 7.8%, respectively, during the three and nine month periods ended September 30, 2014. During the corresponding periods of the previous year, gas royalties averaged 8.8% and 7.7%.

Per unit production and transportation expenses increased by 53% and 52%, respectively, during the three and nine month periods ended September 30, 2014 compared to the corresponding periods of the previous year. The increase is primarily due to gas production from acquired properties that carry higher costs than Kelt's historical average.

FINANCING EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Interest and fees on bank debt	**113**	31	265%	**394**	51	673%
Accretion of decommissioning obligations	**443**	66	571%	**1,232**	151	716%
Financing expense	**556**	97	473%	**1,626**	202	705%
Average bank debt outstanding	**-**	-	-	**-**	-	-
Interest and fees on bank debt, $ per BOE	**0.09**	0.07	29%	**0.12**	0.06	100%

The Company has a $100.0 million committed term credit facility (the "Credit Facility"). The Company did not draw any amounts on the Credit Facility during the current or prior periods and therefore did not incur any interest charges. Amounts reported as interest and fees on bank debt in the table above relate to commitment fees and standby charges on the undrawn facility. Commitment fees and standby charges increased in 2014 as a result of an increase in the authorized borrowing amount.

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)	**2014**	2013	%	**2014**	2013	%
Salaries and benefits	**1,079**	361	199%	**2,847**	846	237%
Other G&A expenses	**792**	277	186%	**2,151**	763	182%
Gross G&A expenses	**1,871**	638	193%	**4,998**	1,609	211%
Recovery pursuant to the Arrangement	**-**	(8)	-100%	**-**	(132)	-100%
Overhead recoveries	**(940)**	(251)	275%	**(2,145)**	(474)	353%
Total G&A expenses, net of recoveries	**931**	379	146%	**2,853**	1,003	184%
Net G&A ($ per BOE)	**0.73**	0.89	-18%	**0.88**	1.09	-19%

In conjunction with the Company's significant growth, Kelt hired several new employees resulting in an increase in salaries, benefits and other overhead costs. The impact of the increase in gross G&A expenses is partially offset by higher overhead recoveries primarily due to higher capital spending (excluding acquisitions) on operated assets in the current year.

On a per unit basis, net G&A expenses decreased by 18% to $0.73 per BOE during the third quarter of 2014 and decreased by 19% to $0.88 per BOE during the first nine months of 2014, compared to the corresponding periods of the previous year. The decrease in per unit G&A expenses reflects the significant increase in production period over period and maintenance of a low cost structure.

SHARE BASED COMPENSATION

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Stock options	**1,107**	814	36%	**2,935**	1,769	66%
Restricted share units ("RSUs")	**1,334**	1,000	33%	**3,572**	2,175	64%
Total share based compensation expense	**2,441**	1,814	35%	**6,507**	3,944	65%
$ per BOE	**1.91**	4.25	-55%	**2.02**	4.30	-53%

The increase in share based compensation expenses during the current periods reflects the amortization of expense related to additional stock options and RSUs granted. The fair value of stock options and RSUs granted in the current period is higher than previous grants primarily due to significant appreciation of the Company's share price.

On a per unit basis, share based compensation expense decreased by 55% and 53% during the three and nine month periods ended September 30, 2014, compared to the corresponding periods of the previous year. The decrease in per unit costs reflects the significant increase in production period over period.

DEPLETION AND DEPRECIATION

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Depletion of development and production assets	**26,132**	6,747	287%	**57,858**	15,016	285%
Depreciation of corporate assets	**131**	35	274%	**260**	50	420%
Total depletion and depreciation	**26,263**	6,782	287%	**58,118**	15,066	286%
$ per BOE	**20.58**	15.90	29%	**18.02**	16.42	10%

The Company calculates depletion of development and production assets based on production relative to total proved reserves, for each property. 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 acquisition of oil weighted assets.

EXPLORATION AND EVALUATION

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Expired mineral leases	**62**	63	-2%	**248**	114	118%
$ per BOE	**0.05**	0.15	-67%	**0.08**	0.12	-33%

During the three and nine month periods ended September 30, 2014, the Company recognized $0.1 million and $0.2 million of costs, respectively, related to the expiry of non-core land holdings.

OTHER INCOME AND EXPENSES

Interest income

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Interest income	**93**	364	-74%	**930**	641	45%
$ per BOE	**0.07**	0.85	-92%	**0.29**	0.70	-59%

The Company earns interest on cash held on deposit with a Canadian chartered bank. On a year-to-date basis, interest income increased in 2014 due to a higher average cash balance. During the third quarter of 2014, interest income decreased as the majority of the Company's cash on hand was used to partially fund the acquisition of Capio.

Transaction costs

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Transaction costs	**185**	-	-	**230**	-	-
$ per BOE	**0.14**	-	-	**0.07**	-	-

The Company incurred $0.2 million of transaction costs associated with acquisitions and dispositions completed during the nine month period ended September 30, 2014. Transaction costs incurred during the third quarter of 2014 relate to the acquisition of Capio which closed on July 2, 2014.

Premium on flow-through shares

On August 27, 2013, the Company issued 2.0 million flow-through shares at a price of $9.80 per flow-through share. The implied premium on the flow-through shares was determined to be $3.6 million or $1.80 per flow-through share, in context of Kelt's concurrent private placement of common shares which was completed at a price of $8.00 per ordinary common share. During the previous year ended December 31, 2013, the Company incurred $13.2 million of qualifying expenditures and the deferred premium was drawn down proportionately by $2.4 million. As of February 28, 2014, the Company had incurred the full commitment of $19.6 million of qualifying Canadian exploration expenditures and the remaining deferred premium of $1.2 million in respect of the August 27, 2013 flow-through share financing was recognized as income in the first quarter of 2014.

On March 25, 2014, the Company issued 2.635 million flow-through shares at a price of $12.75 per flow-through share. The implied premium on the flow-through shares was determined to be $3.0 million or $1.15 per flow-through

share, in context of Kelt's concurrent private placement of common shares which was completed at a price of $11.60 per ordinary common share. As of September 30, 2014, the Company had incurred the full commitment of $33.6 million of qualifying Canadian development expenditures and the deferred premium of $3.0 million was recognized as income.

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)	**2014**	2013	%	**2014**	2013	%
Realized loss	**(536)**	(606)	-12%	**(3,196)**	(378)	746%
Unrealized gain/(loss)	**2,468**	(27)	-	**622**	(27)	-
Gain/(loss) on derivative financial instruments	**1,932**	(633)	-	**(2,574)**	(405)	536%
$ per BOE	**1.51**	(1.48)	-	**(0.80)**	(0.44)	82%

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*.

Fair value accounting for derivative financial instruments may cause significant fluctuations in unrealized gains (losses) due to the volatility of commodity prices and foreign exchange rates. In addition, the fair value of derivative financial instruments as at the Statement of Financial Position date may change in the future as a result of changes in these economic benchmarks upon which the fair value is primarily based, and therefore the amount actually realized from financial instruments may vary from such fair value.

INCOME TAXES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Deferred income tax expense (recovery)	**5,281**	(1,107)	-	**15,195**	(1,993)	-
Profit (loss) before taxes	**6,466**	(3,507)	-	**24,567**	(5,270)	-
Effective tax rate	**82%**	32%	156%	**62%**	38%	63%

The Company recognized deferred tax expense of $5.3 million and $15.2 million, respectively, during the three and nine month periods ended September 30, 2014. The increase in the Company's effective tax rate during the current year is primarily due to the renunciation of tax deductions to holders of flow-through shares related to qualifying Canadian exploration and development expenditures incurred in the period. In addition, the deferred tax expense (recovery) reported differs from the expected expense (recovery) of income taxes calculated based on the statutory tax rate due to non-deductible share based compensation expense and recognition of the unrecognized deferred income tax asset resulting from the Common Control Transaction. An analysis of the provision for deferred income taxes is included in note 13 of the interim financial statements.

Deferred income tax recoveries in the amounts of $1.6 million and $2.1 million were charged directly to equity in respect of share issue costs incurred in the first nine months of 2014 and 2013, respectively.

The Company was not required to pay current income taxes in the current or prior period as it had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of September 30, 2014 are estimated to be approximately $528.3 million (COGPE 46%, CDE 16%, CEE 5%, UCC 23%, SIC 3%, NCL 7%).

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Profit (loss) and comprehensive income (loss)	**1,185**	(2,400)	-	**9,372**	(3,277)	-
Weighted avg. shares outstanding, basic (000's)	**126,681**	89,262	42%	**120,100**	66,234	81%
Weighted avg. shares outstanding, diluted (000's)	**129,033**	89,262	45%	**122,373**	66,234	85%
$ per common share, basic	**0.01**	(0.03)	-	**0.08**	(0.05)	-
$ per common share, diluted	**0.01**	(0.03)	-	**0.08**	(0.05)	-
$ per BOE	**0.93**	(5.63)	-	**2.91**	(3.57)	-

The increase in profit during the current period is primarily due to a significant increase in production coupled with strong commodity prices. In addition, the integration of strategic acquisitions at Valhalla/La Glace and Pouce Coupe/Spirit River contributed to a higher average operating netback as the assets are more oil weighted. Profit (loss) reported by the Company, as determined in accordance with GAAP, includes the provision for significant non-cash items such as deferred income tax, depletion and depreciation, and share based compensation expense.

FUNDS FROM OPERATIONS

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2014**	2013	%	**2014**	2013	%
Funds from operations[1]	**31,799**	5,473	481%	**85,839**	14,260	502%
Weighted avg. shares outstanding, basic (000's)	**126,681**	89,262	42%	**120,100**	66,234	81%
Weighted avg. shares outstanding, diluted (000's)	**129,033**	89,829	44%	**122,373**	66,560	84%
$ per common share, basic[2]	**0.25**	0.06	317%	**0.71**	0.22	223%
$ per common share, diluted[2]	**0.25**	0.06	317%	**0.70**	0.21	233%
$ per BOE	**24.92**	12.83	94%	**26.62**	15.54	71%

(1) Funds from operations is a non-GAAP measure which is calculated as cash provided by operating activities, before settlement of decommissioning obligations and change 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 $31.8 million ($0.25 per common share, basic and diluted) during the three month period ended September 30, 2014. During the same quarter of the previous year, funds from operations was $5.5 million ($0.06 per common share, basic and diluted). This equates to an absolute increase of 481% or a 317% increase in funds from operations per common share, diluted. The increase in funds from operations quarter over quarter is primarily due to increased production combined with strong commodity prices. The addition of new higher netback oil production at the Karr, Valhalla/La Glace and Pouce Coupe/Spirit River properties also contributed to a higher corporate average operating netback in 2014.

During the first nine months of 2014, the Company generated $85.8 million of funds from operations, representing an increase of 502% from $14.3 million in the same nine month period of the previous year. The previous period only includes 216 days of active operations following completion of the Arrangement on February 26, 2013. The increase in funds from operations period over period is also a result of increased production and strong commodity prices. The addition of new higher netback oil production at the Karr, Valhalla/La Glace and Pouce Coupe/Spirit River properties also contributed to a higher corporate average operating netback in 2014. On a diluted per share basis, funds from operations increased by 233% to $0.70 per common share compared to $0.21 per common share in the previous period.

INVESTMENT AND INVESTMENT EFFICIENCIES

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 capital expenditures, including acquisitions and dispositions, are summarized in the following table:

	Nine months ended September 30, 2014		Nine months ended September 30, 2013[1]		
	Amount	**% of total**	Amount	% of total	change
Capital expenditures:					
Lease acquisition and retention	**12,096**	**4%**	11,828	12%	2%
Geological and geophysical	**1,076**	**0%**	3,084	3%	-65%
Drilling and completion of wells	**127,101**	**39%**	54,601	56%	133%
Facilities, pipeline and well equipment	**24,102**	**7%**	13,259	14%	82%
Corporate assets	**538**	**0%**	291	0%	85%
	164,913	**50%**	83,063	85%	99%
Property acquisitions	**11,582**	**4%**	14,751	15%	
Property dispositions	**(19,635)**	**-6%**	-	0%	
Corporate acquisition[2]	**167,574**	**52%**	-	0%	
Capital expenditures, net of dispositions	**324,434**	**100%**	97,814	100%	232%

(1) Of the $97.8 million of total capital expenditures incurred during the first nine months of 2013, approximately $23.3 million was incurred prior to completion of the Arrangement on February 26, 2013, as described under the heading of *Common Control Transaction* below.

(2) The total cost of the corporate acquisition, as reported above, includes $72.1 million of cash consideration, $58.0 million of common share consideration valued based on the negotiated price of $13.58 per common share of Kelt, and the $37.4 million working capital deficit assumed.

Drilling activity

Kelt drilled 11 (9.3 net) wells during the third quarter of 2014. Year-to-date, the Company has drilled 27 (21.8 net) wells, with an overall success rate of 100% on net wells drilled. The Company's average working interest in wells drilled during the period was 81%. In 2014, Kelt's active horizontal drilling program resulted in an average measured depth of net wells drilled of 3,830 metres.

During the previous nine month period ended September 30, 2013, the Company drilled 13 (8.0 net) wells with an average measured depth of 3,427 metres based on net wells.

Corporate acquisition

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 the 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.

Key attributes of the assets acquired:

- At the time of the acquisition, net production was approximately 2,300 BOE per day (70% oil/NGLs and 30% gas) from Triassic horizons, primarily from the Montney formation and also including production from the Halfway and Charlie Lake formations;

- Petroleum and natural gas reserves have been evaluated internally by Kelt effective December 31, 2013:
    - Proved developed producing reserves were 3.4 million BOE, with $1.5 million in associated future development capital;
    - Total proved reserves were 6.2 million BOE, with $38.4 million in associated future development capital;
    - Total proved plus probable reserves were 11.7 million BOE, with $60.7 million in associated future development capital;
    - A proved plus probable reserve life index of 14.0 years based on current production;
- Infrastructure component with interests in major oil and gas facilities including a 100% ownership interest in an oil battery, recently upgraded to handle 3,500 barrels of oil per day and 20.0 mmcf of gas per day and 100% ownership interests in gas compressors and oil and gas gathering pipelines;
- Extensive land position that is a complementary fit geographically to Kelt's existing core areas at Pouce Coupe/Spirit River and is located approximately 18 miles south of Pouce Coupe/Spirit River and approximately 15 miles northwest of Grande Prairie. The acquisition included 38,400 gross acres (60 gross sections) and 32,981 net acres (51.5 net sections) of land; and
- The Valhalla/La Glace assets will be operated from Kelt's established field office located in Grande Prairie, Alberta.

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 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.

(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.

The fair values of identifiable assets and liabilities acquired 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.

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the transaction on July 2, 2014. Specifically, Kelt's profit for the period ended September 30, 2014 includes approximately $10.7 million of revenue and $5.2 million of operating income generated from the Valhalla/La Glace properties subsequent to closing. If the acquisition had occurred on January 1, 2014, pro-forma revenue and operating income is estimated to be approximately $37.3 million and $19.1 million, respectively, for the nine month period ended September 30, 2014. 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.

Pouce Coupe/Spirit River property acquisition

On December 20, 2013, the Company acquired certain crude oil and natural gas assets located at Pouce Coupe/Spirit River, for cash consideration of $192.0 million, before closing adjustments. The acquisition included an established field office located in the city of Grande Prairie, Alberta which has now become Kelt's main field operating base for all of the Company's operated properties in the newly acquired Pouce Coupe/Spirit River area and in the Company's existing areas at Karr and Grande Cache. The Pouce Coupe/Spirit River assets included an extensive land position that is a complementary fit geographically to Kelt's existing core areas at Karr and Grande Cache and are located 20 and 40 miles north of Karr and Grande Cache, respectively. The acquisition included 256,345 gross acres (400 gross sections) and 103,303 net acres (161 net sections) of land. The acquisition also included a major infrastructure component with interests in major oil and gas facilities including a 20.2% ownership interest in a 140 MMCF per day gas processing plant, varying ownership interests in gas compressors and oil batteries, as well as an extensive network of oil and gas gathering pipelines that will be accessible for transportation of oil and gas resulting from future drilling.

Fireweed property acquisition

On August 9, 2013, the Company acquired natural gas assets at Fireweed, adjacent to the Company's core producing area at Inga, in northeastern British Columbia, for cash consideration of $15.5 million, before closing adjustments. Kelt acquired a 50% working interest in the Fireweed assets and its partner and the operator at Inga, also acquired a 50% working interest in the assets. The assets acquired include a compression and dehydration facility with approximately 16 MMCF per day of gross natural gas capacity and 25 kilometres of pipeline that adds to the Company's infrastructure in the area. The Fireweed assets are a complementary fit with a contiguous land position adjacent to Kelt's Inga exploration and development core area, including 11,227 net acres (15.8 net sections) of land (6,299 net acres with Doig mineral rights and 7,097 net acres with Montney mineral rights).

Common control transaction

Pursuant to the Arrangement and the Conveyance Agreement, Celtic transferred certain petroleum and natural gas assets to Kelt in exchange for $142.0 million of common share consideration on February 26, 2013. Celtic incurred approximately $23.3 million of capital costs on behalf of Kelt prior to closing of the Arrangement, which were incremental to the value of common share consideration. Accordingly, the additional costs are included in the Company's total capital expenditures for the nine months ended September 30, 2013.

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 estimated to be approximately 210 barrels per day of oil at the time of the disposition. Proved reserves, as at December 31, 2013, were 500,500 barrels and proved plus probable reserves were 635,100 barrels. Kelt had not assigned any future development capital or future potential drilling locations to these assets. The disposition did not result in a reduction of the authorized borrowing amount available under the Credit Facility.

CAPITAL RESOURCES AND LIQUIDITY

SOURCE OF FUNDS

During the nine month period ended September 30, 2014, the Company generated $84.1 million in cash provided by operating activities. The Company's capital expenditures in the first nine months of 2014 were funded by cash on hand, cash provided by operating activities, the issuance of common shares, and minor non-core asset dispositions.

During the nine month period ended September 30, 2014, the Company raised gross proceeds of $147.0 million pursuant to a private placement, by issuing 12.4 million common shares at an average issue price of $11.84 per common share. In addition, Kelt issued 4.3 million common shares of Kelt to the shareholders of Capio in order to

partially fund the corporate acquisition. During the previous year ended December 31, 2013, the Company completed four private placement equity offerings, issuing a total of 48.9 million common shares at an average issue price of $6.56 per common share resulting in aggregate gross proceeds of $320.9 million. A summary of the foregoing is set out in note 12 of the interim financial statements.

The Company has a committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. The lenders have approved a borrowing base of $170.0 million, and a commitment amount of $100.0 million. Kelt may, if necessary to meet the capital requirements of the Company, request to increase the commitment amount from $100.0 million up to $170.0 million prior to the next scheduled review, with any such increase request being subject to the approval of the lenders. The Credit Facility is available for a revolving period of 364 days, maturing on April 29, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 if not renewed. 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. The Company is not subject to any financial covenants under the Credit Facility and as at September 30, 2014, Kelt is in compliance with all other covenants. The Company did not draw any amounts on the Credit Facility during the period and as at September 30, 2014, the Credit Facility remains undrawn.

The borrowing base authorized under the Credit Facility is determined, in part, with reference to the value of the Company's reserves. The current borrowing base of $170.0 million does not incorporate the addition of reserves pursuant to the Capio acquisition which closed on July 2, 2014, or addition of new reserves resulting from the Company's successful 2014 drilling program. In order to meet the upcoming capital requirements of the Company, management intends to request an increase in the borrowing base and commitment amount during the next scheduled review in November 2014. Although the Company reasonably expects to increase the borrowing amount available under its Credit Facility, any such increase is subject to approval of the lenders.

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

As at September 30, 2014, the Company had a net working capital deficit of $37.2 million. The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. The working capital deficiency will be funded by cash provided by operating activities and supplemented by the Company's undrawn Credit Facility.

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, 2014, 93% of accounts receivable are current and all balances outstanding are expected to be fully collectable.

Accounts payable consists of amounts payable to suppliers relating to head office and field operating and investing activities. These invoices are processed within the Company's normal payment period.

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 and bank debt (as at September 30, 2014, bank debt outstanding is nil). 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 relatively low net 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. 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.

The Company's $100.0 million Credit Facility, which is undrawn at September 30, 2014, is structured as a committed term loan. The Credit Facility is available for a revolving period of 364 days, maturing on April 29, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 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.

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, 2014 there were 126.7 million common shares issued and outstanding (as at November 12, 2014, there were 126.7 million common shares outstanding). There are no preferred shares issued or outstanding.

As at September 30, 2014, officers, directors, and employees have been granted options to purchase 3.7 million common shares of the Company at an average exercise price of $8.83 per common share. In addition, there are 1.8 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 12 to the 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.

The following table summarizes the Company's financial derivative risk management contracts outstanding as of September 30, 2014:

Commodity	Notional volume	Pricing point	Contract Price	Remaining term	Fair value Asset (Liability)
Crude oil	500 bbls/d	NYMEX – WTI	CA$ 100.00/bbl	Oct 1 to Dec 31, 2014	**(53)**
Crude oil	500 bbls/d	NYMEX – WTI	CA$ 101.41/bbl	Oct 1 to Dec 31, 2014	**12**
Crude oil	500 bbls/d	NYMEX – WTI	CA$ 103.10/bbl	Oct 1 to Dec 31, 2014	**90**
Propane	150 bbls/d	OPIS-Conway	US$ 48.09/bbl	Oct 1 to Dec 31, 2014	**41**
Net derivative financial instrument asset					**90**

The fair value of the derivative contracts is sensitive to changes in commodity prices. If the Canadian dollar equivalent WTI price increases (decreases) by $1.00 per barrel, the total fair market value of the crude oil contracts would decrease (increase) by $0.1 million. If the Canadian dollar equivalent OPIS-Conway propane price increases (decreases) by $1.00 per barrel, the change in fair market value of the propane contract would be nominal.

Subsequent to September 30, 2014, the Company entered into an additional commodity swap contract for 250 barrels of propane per day at a fixed price of OPIS-Conway US$40.95 per barrel for the period from March 1, 2015 to December 31, 2015.

CONTRACTUAL OBLIGATIONS

The Company is committed to future payments under the following agreements:

(CA$ thousands)	2014	2015	2016	2017	2018	Thereafter
Operating lease – office buildings	219	860	878	892	373	133
Operating lease – vehicles	48	182	119	34	-	-
Firm transportation commitments	721	2,840	1,120	13	-	-
Total annual commitments	**988**	**3,882**	**2,117**	**939**	**373**	**133**

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

The Company has a $100.0 million Credit Facility which is undrawn at September 30, 2014. 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.

On March 25, 2014, the Company issued 2.635 million flow-through shares at a price of $12.75 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 September 30, 2014, the Company had incurred the full commitment of $33.6 million. Kelt shall renounce the Qualifying Expenditures so incurred to the purchasers of the flow-through common shares in an amount equal to $12.75 per flow-through common share on or prior to December 31, 2014.

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 of 2014, the Company incurred $0.4 million (2013 – $0.4 million) in legal fees and disbursements, of which, less than $0.1 million is payable at September 30, 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, 2014 and 2013.

SUMMARY OF QUARTERLY RESULTS

Comparative quarterly information is presented in the table below. The Company was incorporated on October 11, 2012 and commenced active operations on February 27, 2013, following completion of the Arrangement.

(CA$ thousands, except as otherwise indicated)	**Q3 2014**	Q2 2014	Q1 2014	Q4 2013
Revenue, before royalties and financial instruments	**61,136**	51,366	47,793	18,543
Funds from operations	**31,799**	27,956	26,084	9,396
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 surplus (deficiency)	**(37,219)**	116,488	123,150	20,500
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%

	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Revenue, before royalties and financial instruments	12,388	11,860	3,865	-
Funds from operations	5,473	6,608	2,179	-
Per share – basic ($/common share)	0.06	0.08	0.09	-
Per share – diluted ($/common share)	0.06	0.08	0.09	-
Profit (loss) and comprehensive income (loss)	(2,400)	(737)	(140)	-
Per share – basic ($/common share)	(0.03)	(0.01)	(0.01)	-
Per share – diluted ($/common share)	(0.03)	(0.01)	(0.01)	-
Total assets	333,832	229,370	141,834	-
Bank debt	-	-	-	-
Working capital surplus (deficiency)	123,774	58,058	(24,471)	-
Average daily production (BOE/d)	4,636	4,097	1,316	-
Average realized price, after financial instruments ($/BOE)	28.17	32.42	32.64	-
Operating netback ($/BOE)	12.94	18.42	19.28	-
Netback as a percentage of revenue	46%	57%	59%	-

Since commencing active operations on February 27, 2013, the Company has significantly grown its asset and production base through a combination of 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 the Company has not drawn on its $100.0 million Credit Facility. Increased production and strong commodity prices combined with the maintenance of a low cost structure resulted in a significant improvement in profit and funds from operations per common share and operating netbacks during the first nine months 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 most recently filed Annual Information Form dated March 28, 2014, 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. Global economic growth has shown signs of slowing down, reducing the demand for crude oil. Combined with increasing supplies from countries such as Libya, crude oil prices have been negatively affected. In addition, infrastructure and capacity constraints continue to impact commodity prices being realized in domestic markets relative to world markets. Political events in the Middle East and Russia remain a wild card and could hamper world economic growth if oil supply is negatively affected. Inflation around the world could also have an impact on economic growth which would ultimately affect the demand for energy in high growth countries such as India and China. Also, uncertainties facing debt markets around the world could lead to tighter credit markets in the future.

In this environment, Kelt is focused 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.

2014 GUIDANCE

Kelt continues to remain 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 endeavours to maintain a high quality product stream that on a historical basis receives a superior price. In addition, the Company focuses its exploration efforts in areas of multi-zone/stacked hydrocarbon potential, primarily in west central Alberta.

Kelt's previously disclosed capital expenditure budget of $428.0 million remains unchanged. The Company expects to spend $215.5 million on drilling and completing wells, $33.5 million on facilities, equipment and pipelines, and $19.0 million on land and seismic. Acquisitions, net of proceeds from dispositions are expected to be $160.0 million.

Kelt expects production in 2014 to average approximately 12,600 BOE per day (previous forecast was 12,250 BOE per day). Average production for 2014 is expected to be weighted 27% oil, 8% NGLs, and 65% gas; however, operating income in 2014 is expected to be derived 57% from oil production, 12% from NGLs production, and 31% from gas production.

The Company expects to exit 2014 with production of approximately 15,800 BOE per day with a higher weighting towards oil. Exit 2014 production is expected to be weighted 33% oil, 8% NGLs, and 59% gas.

The Company's average commodity price assumptions for 2014 are US$94.70 (previous forecast was US$96.00) per barrel for WTI oil, US$4.25 (previous forecast was US$4.40) per MMBTU for NYMEX natural gas, $4.25 (previous forecast was $4.35) per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US$0.9080 (previous forecast was US$0.9259). Estimated average 2014 prices compare to average calendar 2013 prices of US$97.98 per barrel for WTI oil, US$3.68 per MMBTU for NYMEX natural gas, $2.97 per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US$0.9710.

The Company expects funds from operations to be lower by 1.4% compared to previous guidance mainly due to lower commodity prices, despite an increase in average 2014 production guidance of 2.9%. Funds from operations for 2014 is forecasted to be approximately $115.9 million or $0.93 per common share, diluted (previous forecast was $117.5 million or $0.95 per common share, diluted). Kelt estimates that the Company's bank indebtedness, net of working capital, will be approximately $111.0 million at December 31, 2014. Kelt currently has a committed term credit facility with a syndicate of financial institutions. The lenders approved a borrowing base of $170.0 million and a commitment amount of $100.0 million. Kelt expects to increase the commitment amount available under its Credit Facility during the next scheduled review in November 2014.

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.

The information set out herein under the heading "2014 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 for 2014. 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 28, 2014, 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 12, 2014

KELT EXPLORATION LTD.
STATEMENT OF FINANCIAL POSITION
[Unaudited]

(CA$ thousands)	[Notes]	**September 30, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**14,964**	32,015
Accounts receivable and accrued revenue	[14]	**35,746**	13,082
Prepaid expenses and deposits		**1,604**	1,240
Derivative financial instruments	[14]	**90**	-
Assets held for sale	[6]	**-**	19,635
Total current assets		**52,404**	65,972
Deferred income tax asset	[13]	**-**	1,957
Exploration and evaluation assets	[7]	**69,232**	40,564
Property, plant and equipment	[8]	**680,399**	376,708
Goodwill	[9]	**18,206**	-
Total assets		**820,241**	485,201
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**89,311**	43,447
Derivative financial instruments	[14]	**-**	532
Deferred premium on flow-through shares	[12]	**-**	1,181
Decommissioning obligations	[11]	**312**	312
Bank debt	[10]	**-**	-
Total current liabilities		**89,623**	45,472
Decommissioning obligations	[11]	**66,983**	46,857
Deferred income tax liability	[13]	**49,251**	-
Total liabilities		**205,857**	92,329
SHAREHOLDERS' EQUITY			
Shareholders' capital	[12]	**655,545**	449,876
Reserve from common control transaction	[4]	**(57,668)**	(57,668)
Contributed surplus		**12,250**	5,779
Retained earnings (deficit)		**4,257**	(5,115)
Total shareholders' equity		**614,384**	392,872
Total liabilities and shareholders' equity		**820,241**	485,201

Acquisitions [5]
Commitments [16]

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands, except per share amounts)	[Notes]	**2014**	2013	**2014**	2013
Revenue					
Oil and gas sales		**61,136**	12,388	**160,295**	28,113
Royalties		**(9,245)**	(2,373)	**(21,919)**	(3,835)
		51,891	10,015	**138,376**	24,278
Expenses					
Production		**15,075**	2,685	**39,113**	6,370
Transportation		**3,345**	1,433	**7,681**	3,085
Financing	[15]	**556**	97	**1,626**	202
General and administrative		**931**	379	**2,853**	1,003
Share based compensation	[12]	**2,441**	1,814	**6,507**	3,944
Depletion and depreciation		**26,263**	6,782	**58,118**	15,066
Exploration and evaluation	[7]	**62**	63	**248**	114
		48,673	13,253	**116,146**	29,784
Profit (loss) before other items and taxes		**3,218**	(3,238)	**22,230**	(5,506)
Interest income		**93**	364	**930**	641
Transaction costs	[5,6]	**(185)**	-	**(230)**	-
Premium on flow-through shares	[12]	**1,408**	-	**4,211**	-
Gain/(loss) on derivative financial instruments	[14]	**1,932**	(633)	**(2,574)**	(405)
Profit (loss) before taxes		**6,466**	(3,507)	**24,567**	(5,270)
Deferred income tax expense (recovery)	[13]	**5,281**	(1,107)	**15,195**	(1,993)
Profit (loss) and comprehensive income (loss)		**1,185**	(2,400)	**9,372**	(3,277)
Profit (loss) per common share					
Basic	[12]	**0.01**	(0.03)	**0.08**	(0.05)
Diluted	[12]	**0.01**	(0.03)	**0.08**	(0.05)

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

KELT EXPLORATION LTD.
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, 2013		**449,876**	**(57,668)**	**5,779**	**(5,115)**	**392,872**
Profit (loss) and comprehensive income (loss)					**9,372**	**9,372**
Common shares issued:						
Private placements	[12]	**146,986**				**146,986**
Less: deferred premium on flow-through shares	[12]	**(3,030)**				**(3,030)**
Pursuant to corporate acquisition	[5]	**66,243**				**66,243**
Share issue costs, net of tax	[12]	**(4,696)**				**(4,696)**
Exercise of stock options	[12]	**166**		**(36)**		**130**
Share based compensation	[12]			**6,507**		**6,507**
Balance at September 30, 2014		**655,545**	**(57,668)**	**12,250**	**4,257**	**614,384**
Balance at December 31, 2012		-	-	-	-	-
Profit (loss) and comprehensive income (loss)					(3,277)	(3,277)
Common shares issued, net of costs:						
Pursuant to the Arrangement	[4,12]	141,961	(57,668)			84,293
Private placements	[12]	219,870				219,870
Less: deferred premium on flow-through shares	[12]	(3,600)				(3,600)
Share issue costs, net of tax	[12]	(6,410)				(6,410)
Share based compensation	[12]			3,944		3,944
Balance at September 30, 2013		351,821	(57,668)	3,944	(3,277)	294,820

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

KELT EXPLORATION LTD.
STATEMENT OF CASH FLOWS
[Unaudited]

(CA$ thousands)	[Notes]	Three months ended September 30 **2014**	2013	Nine months ended September 30 **2014**	2013
Operating activities					
Profit (loss)		**1,185**	(2,400)	**9,372**	(3,277)
Items not affecting cash:					
Accretion of decommissioning obligations	[11,15]	**443**	66	**1,232**	151
Share based compensation		**2,441**	1,814	**6,507**	3,944
Depletion and depreciation		**26,263**	6,782	**58,118**	15,066
Exploration and evaluation		**62**	63	**248**	114
Premium on flow-through shares		**(1,408)**	-	**(4,211)**	-
Unrealized loss/(gain) on derivative financial instruments	[14]	**(2,468)**	27	**(622)**	27
Deferred income tax expense (recovery)		**5,281**	(1,107)	**15,195**	(1,993)
Cash premium on derivatives		**-**	228	**-**	228
Settlement of decommissioning obligations	[11]	**(146)**	-	**(146)**	-
Change in non-cash operating working capital	[17]	**1,127**	2,110	**(1,602)**	(1,235)
Cash provided by operating activities		**32,780**	7,583	**84,091**	13,025
Financing activities					
Issue of common shares	[12]	**-**	111,600	**146,986**	219,870
Proceeds on exercise of stock options	[12]	**-**	-	**130**	-
Share issue costs		**(293)**	(5,133)	**(6,261)**	(8,546)
Cash provided by financing activities		**(293)**	106,467	**140,855**	211,324
Investing activities					
Pursuant to the Arrangement	[4]	**-**	27	**-**	(23,253)
Exploration and evaluation assets		**(42,739)**	(17,935)	**(59,425)**	(25,761)
Property, plant and equipment		**(35,588)**	(9,869)	**(105,488)**	(34,049)
Property acquisitions	[5]	**(1,041)**	(14,451)	**(11,582)**	(14,751)
Property dispositions	[6]	**-**	-	**19,635**	-
Corporate acquisition	[5]	**(104,663)**	-	**(104,663)**	-
Change in non-cash investing working capital	[17]	**19,839**	(8,008)	**19,526**	14,889
Cash used in investing activities		**(164,192)**	(50,236)	**(241,997)**	(82,925)
Net change in cash and cash equivalents		**(131,705)**	63,814	**(17,051)**	141,424
Cash and cash equivalents, beginning of period		**146,669**	**77,610**	**32,015**	**-**
Cash and cash equivalents, end of period		**14,964**	141,424	**14,964**	141,424

The accompanying notes form an integral part of these condensed 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") 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. The head office of Kelt is located at Suite 300, 311 – 6th Avenue S.W., Calgary, Alberta T2P 3H2.

Kelt 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 is a single reporting entity and does not have any subsidiaries. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "KEL".

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

2. BASIS OF PRESENTATION

These condensed interim financial statements were approved and authorized for issue by the Company's Board of Directors on November 12, 2014.

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 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 interim financial statements should be read in conjunction with the audited annual financial statements as at and for the year ended December 31, 2013.

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 14 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 1 of the December 31, 2013 annual financial statements. There have been no significant changes in the Company's significant judgments and estimates applied during the interim period ended September 30, 2014 relative to the most recent annual financial statements as at and for the year ended December 31, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 2 of the December 31, 2013 annual financial statements. Except as outlined below, these condensed 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, 2013.

The Company records goodwill relating to a business combination when the consideration paid exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis. Goodwill impairments are not reversed.

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

Effective January 1, 2014, the Company retrospectively adopted International Financial Reporting Interpretation Committee ("IFRIC") 21 *Levies.* IFRIC 21 clarified that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact on the Company's financial statements.

4. COMMON CONTROL TRANSACTION

The Company was incorporated as a wholly owned subsidiary of Celtic Exploration Ltd. ("Celtic"), for the purposes of participating in a Plan of Arrangement (the "Arrangement") between ExxonMobil Canada Ltd. ("ExxonMobil Canada"), ExxonMobil Celtic ULC (formerly 1690731 Alberta ULC) (the "Purchaser"), Celtic and Kelt. Pursuant to the Arrangement, the Purchaser purchased all of Celtic's outstanding common shares ("Celtic Shares"), including Celtic Shares issued upon conversion of Celtic's 5% convertible debentures, at a cash price of $24.50 per Celtic Share. Additionally, Celtic shareholders received one-half (1/2) of a share of Kelt for each Celtic Share.

Pursuant to the Arrangement and a conveyance agreement (the "Conveyance Agreement") entered into by Celtic and Kelt upon closing of the Arrangement on February 26, 2013, Celtic transferred certain petroleum and natural gas assets (the "Celtic Assets") to Kelt in exchange for $142.0 million of common share consideration (the "Common Control Transaction"). The Celtic Assets transferred pursuant to the Common Control Transaction included all of Celtic's rights, title, estate and interest in the petroleum, natural gas and related hydrocarbon rights and related personal property interests within, upon or under the lands and leases, including: a liquids-rich gas property in the Inga area of northeastern British Columbia; a gas property in the Grande Cache area of Alberta; and an oil prospect in the Karr area of west central Alberta.

Kelt commenced active operations on February 27, 2013 following the completion of the Arrangement and Common Control Transaction on February 26, 2013. Prior to closing of the Arrangement, Kelt was a wholly owned subsidiary of Celtic and immediately subsequent to closing, Kelt was controlled by the same shareholders as Celtic; consequently, the entities were under common control. The Common Control Transaction has been accounted for using the predecessor values from the date of transaction method, whereby the Celtic Assets are transferred to Kelt based on the historical carrying value carved-out of Celtic.

The following table summarizes the carrying value of the net assets transferred as of February 26, 2013:

Exploration and evaluation assets		12,785
Property, plant and equipment		
Cost	126,062	
Accumulated depletion and depreciation	(22,218)	103,844
Decommissioning obligations		(9,089)
Net working capital		(23,247)
Carrying value of net assets transferred		**84,293**

Pursuant to the Conveyance Agreement, Celtic incurred certain costs on behalf of Kelt prior to closing of the Arrangement. These costs relate primarily to capital expenditures in respect of the Celtic Assets. Accordingly, net working capital in the amount of $23.2 million is presented as a reduction of the carrying value of the net assets transferred.

The difference between the common share consideration of $142.0 million and the carrying value of the Celtic Assets is recognized as a reserve from common control transaction in shareholders' equity, as follows:

Common shares	[note 12]	141,961
Carrying value of net assets transferred		(84,293)
Reserve from common control transaction		**57,668**

Under the terms of the Arrangement, the Company acquired tax pools in the amount of $165.2 million relating to the Celtic Assets. The Company did not initially recognize a deferred income tax asset of $14.4 million related to the excess of tax pools acquired relative to the carrying value of the net assets transferred because the Common Control Transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 *Income taxes*. Refer to note 12 for additional information.

5. ACQUISITIONS

a) Corporate acquisition

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 the 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 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 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.

(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.

The fair values of identifiable assets and liabilities acquired 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.

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.

Pursuant to the terms of the agreement, the majority of transaction costs in respect of the acquisition were borne by Capio shareholders and reduced the ultimate amount of cash consideration paid by Kelt after closing adjustments. Kelt incurred approximately $0.2 million of transaction costs which were recognized as an expense in the period.

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the transaction on July 2, 2014. Specifically, Kelt's profit for the period ended September 30, 2014 includes approximately $10.7 million of revenue and $5.2 million of operating income generated from the Valhalla/La Glace properties subsequent to closing. If the acquisition had occurred on January 1, 2014, pro-forma revenue and operating income is estimated to be approximately $37.3 million and $19.1 million, respectively, for the nine month period ended September 30, 2014. 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.

b) Property acquisitions

During the nine month period ended September 30, 2014, the Company completed several minor acquisitions of petroleum and natural gas assets for aggregate cash consideration of approximately $11.6 million, after estimated closing adjustments. 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 primarily located in the Pouce Coupe/Spirit River area of west central Alberta, and are a complimentary fit with Kelt's existing core assets.

The following table summarizes the aggregate fair value of net assets acquired pursuant to the minor property acquisitions completed during the first nine months of 2014:

Exploration and evaluation assets	4,616
Property, plant and equipment	8,344
Decommissioning obligations	(1,378)
Fair value of net assets acquired	**11,582**
Cash consideration, after closing adjustments	**11,582**

Fireweed property acquisition

On August 9, 2013, the Company acquired natural gas assets at Fireweed, adjacent to the Company's core producing area at Inga, in northeastern British Columbia, for cash consideration of $15.5 million, before closing adjustments. The acquisition had an effective date of April 1, 2013 and the purchase price was adjusted for the results of operations between the effective date and closing of the transaction resulting in a reduction of the purchase price by $1.3 million after closing adjustments. The transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

The following table summarizes the fair value of net assets acquired pursuant to the Fireweed acquisition:

Exploration and evaluation assets	1,045
Property, plant and equipment	13,718
Decommissioning obligations	(585)
Fair value of net assets acquired	**14,178**
Cash consideration, after closing adjustments	**14,178**

Pouce Coupe/Spirit River property acquisition

On December 20, 2013, the Company acquired certain crude oil and natural gas assets located at Pouce Coupe/Spirit River, for cash consideration of $192.0 million, before closing adjustments. The acquisition had an effective date of October 1, 2013 and the purchase price was adjusted for the results of operations between the effective date and closing of the transaction resulting in a reduction of the purchase price by $1.3 million after closing adjustments. The transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

The following table summarizes the fair value of net assets acquired pursuant to the Pouce Coupe/Spirit River acquisition:

Exploration and evaluation assets	8,682
Property, plant and equipment(1)	197,592
Decommissioning obligations(2)	(15,533)
Fair value of net assets acquired	**190,741**
Cash consideration, after closing adjustments	**190,741**

(1) Includes $20.6 million of property, plant and equipment classified as held for sale as at December 31, 2013, and disposed on February 10, 2014.
(2) Includes $1.0 million of decommissioning obligations classified as held for sale as at December 31, 2013, and disposed on February 10, 2014.

6. DISPOSITION OF ASSETS HELD FOR SALE

On February 10, 2014, Kelt completed the disposition of certain non-core and non-operated assets located in northwestern Alberta (collectively referenced herein as the “Assets Held for Sale”). The Company received proceeds of $20.0 million, before closing adjustments.

The Assets Held for Sale were acquired on December 20, 2013, as part of the greater Pouce Coupe/Spirit River property acquisition, as described in note 5. Management entered into negotiations to sell and received an initial offer to purchase the Assets Held for Sale, prior to closing of the acquisition. As of the acquisition date, it was considered highly probable that the disposition would be successfully completed. Accordingly, the acquired assets to be sold were classified as held for sale on the acquisition date and measured at their fair value less costs of disposal. The disposition had an effective date of January 1, 2014 and the fair value has been reduced by approximately $0.4 million in respect of estimated closing adjustments between the effective date and closing of the transaction.

The fair value of the property, plant and equipment held for sale, net of the fair value of associated decommissioning obligations, is outlined in the table below:

Property, plant and equipment	20,635
Decommissioning obligations	(1,000)
Net proceeds from disposition of Assets Held for Sale	**19,635**

In accordance with IFRS 5, the Company did not recognize depletion and depreciation expense on the Assets Held for Sale because they were designated as held for sale on the acquisition date. Thus, the property, plant and equipment held for sale does not have any associated accumulated depletion and depreciation.

The Statement of Profit and Comprehensive Income for the nine month period ended September 30, 2014 includes approximately $0.7 million of revenue and $0.4 million of operating income in respect of the Assets Held for Sale for the 40 day period up to closing of the disposition on February 10, 2014. There were no future development costs assigned to these assets. The disposition did not result in a reduction of the authorized borrowing amount available under the Credit Facility (note 10).

7. 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, 2014	December 31, 2013
Balance, beginning of period	**40,564**	-
Common control transaction [note 4]	**-**	12,785
Additions	**59,425**	46,717
Property acquisitions [note 5]	**4,616**	11,355
Corporate acquisition [note 5]	**10,832**	-
Transfers to property, plant and equipment	**(45,957)**	(30,179)
Expired mineral leases	**(248)**	(114)
Balance, end of period	**69,232**	40,564

The Company did not capitalize any general and administrative costs in respect of exploration activities during the current or prior periods.

8. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**September 30, 2014**	December 31, 2013
Development and production assets	**679,812**	376,399
Corporate assets	**587**	309
Total net carrying value of property, plant and equipment	**680,399**	376,708

The following table reconciles movements of property, plant and equipment during the period:

Property, plant and equipment, at cost	D&P[1] Assets	Corporate Assets	Total PP&E
Balance at December 31, 2012	-	-	-
Common control transaction [note 4]	126,062	-	126,062
Additions	49,321	414	49,735
Property acquisitions [note 5]	198,089	-	198,089
Decommissioning costs	38,833	-	38,833
Transfers from E&E	30,179	-	30,179
Assets held for sale [note 6]	(20,635)	-	(20,635)
Balance at December 31, 2013	**421,849**	**414**	**422,263**
Additions	**104,950**	**538**	**105,488**
Property acquisitions [note 5]	**8,344**	**-**	**8,344**
Corporate acquisition [note 5]	**184,757**	**-**	**184,757**
Dispositions	**-**	**(22)**	**(22)**
Decommissioning costs	**17,263**	**-**	**17,263**
Transfers from E&E	**45,957**	**-**	**45,957**
Balance at September 30, 2014	**783,120**	**930**	**784,050**

Accumulated depletion and depreciation	D&P[1] Assets	Corporate Assets	Total PP&E
Balance at December 31, 2012	-	-	-
Common control transaction [note 4]	22,218	-	22,218
Depletion and depreciation expense	23,232	105	23,337
Balance at December 31, 2013	**45,450**	**105**	**45,555**
Depletion and depreciation expense	**57,858**	**260**	**58,118**
Dispositions	**-**	**(22)**	**(22)**
Balance at September 30, 2014	**103,308**	**343**	**103,651**

(1) Development and production assets have been abbreviated as "D&P assets"

The Company did not capitalize any general and administrative costs in respect of development and production activities during the current period. There were no borrowing costs capitalized in the current or prior period, as the Company did not have any qualifying assets nor did the Company draw on the Credit Facility.

Future capital costs required to develop proved reserves in the amount of $263.5 million (2013 – $219.6 million) are included in the depletion calculation for development and production assets.

9. GOODWILL

	September 30, 2014	December 31, 2013
Balance, beginning of period	**-**	-
Acquisition of Capio Exploration Ltd. [note 5]	**18,206**	-
Balance, end of period	**18,206**	-

10. BANK DEBT

The Company has a committed term credit facility (the “Credit Facility”) with a syndicate of financial institutions. The lenders have approved a borrowing base of $170.0 million, and a commitment amount of $100.0 million. Kelt may, if necessary to meet the capital requirements of the Company, request to increase the commitment amount from $100.0 million up to $170.0 million prior to the next scheduled review, with any such increase request being subject to the approval of the lenders. The Credit Facility is available for a revolving period of 364 days, maturing on April 29, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 if not renewed. 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. The authorized borrowing amount is subject to interim reviews by the financial institutions and the next review is scheduled for November 2014. 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.

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.

The Company did not draw any amounts on the Credit Facility during the period and as at September 30, 2014, the Credit Facility remains undrawn.

11. 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, 2014	December 31, 2013
Balance, beginning of period	**48,169**	-
Common control transaction [note 4]	**-**	9,089
Obligations incurred	**2,248**	1,698
Obligations acquired(1) [note 5]	**1,777**	16,231
Disposition of obligations held for sale [note 6]	**(1,000)**	-
Obligations settled	**(146)**	-
Changes in discount rate(1)	**15,015**	21,491
Revisions to estimates	**-**	(587)
Accretion expense	**1,232**	247
Balance, end of period	**67,295**	48,169
Current portion of decommissioning obligations	**(312)**	(312)
Obligations associated with assets held for sale [note 6]	**-**	(1,000)
Long-term portion of decommissioning obligations	**66,983**	46,857

(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 2.7% (2013 – 3.2%) and an inflation rate of 2.0% (2013 – 2.0%). As at September 30, 2014, the undiscounted amount of the estimated cash flows required to settle the obligation is $84.7 million (2013 – $74.0 million), which will 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 15).

12. 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, 2012	-	-
Issued pursuant to the Arrangement [note 4]	61,126	141,961
Issued for cash through private placement offerings	48,900	320,930
Deferred premium on flow-through shares	-	(3,600)
Share issue costs, net of deferred income taxes ($3,138)	-	(9,415)
Balance at December 31, 2013	**110,026**	**449,876**
Issued for cash through private placement offering	**12,410**	**146,986**
Deferred premium on flow-through shares	**-**	**(3,030)**
Issued pursuant to corporate acquisition [note 5(a)]	**4,271**	**66,243**
Issued for cash on exercise of stock options	**20**	**130**
Transfer from contributed surplus on exercise of stock options	**-**	**36**
Share issue costs, net of deferred income taxes ($1,565)	**-**	**(4,696)**
Balance at September 30, 2014	**126,727**	**655,545**

There are no preferred shares issued or outstanding as of September 30, 2014 (2013 – nil).

i) Common share offerings

On July 2, 2014, the Company issued 4,270,956 common shares to the shareholders of Capio as partial consideration for the acquisition. 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 September 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 (which includes the exercise, in full, of the over-allotment option to purchase 1.275 million common shares) 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 September 30, 2014, the Company had incurred the full commitment of $33.6 million of Qualifying Expenditures. Kelt shall renounce the Qualifying Expenditures so incurred to the purchasers of the flow-through common shares in an amount equal to $12.75 per flow-through common share on or prior to December 31, 2014.

On December 3, 2013, Kelt raised aggregate gross proceeds of $101.06 million through a brokered and non-brokered subscription receipt equity financing. Pursuant to an agreement with a syndicate of underwriters, on a bought deal private placement basis, the Company issued 10.0 million subscription receipts of Kelt at a price of $8.15 per subscription receipt, resulting in gross proceeds of $81.5 million. Certain officers and directors of the Company purchased an additional 2.4 million subscriptions receipts at a price of $8.15 per subscription receipt, on a non-brokered private placement basis, providing additional gross proceeds of $19.56 million. The subscription receipts were converted into common shares of the Company on December 20, 2013, at no additional cost, following successful completion of the Pouce Coupe/Spirit River acquisition.

On August 27, 2013, the Company issued 11.5 million common shares at a price of $8.00 per common share (which includes the exercise in full of the over-allotment option to purchase 1.5 million common shares) for gross proceeds of $92.0 million. In addition, the Company issued 2.0 million flow-through shares in respect of Canadian exploration expenses at a price of $9.80 per flow-through share, providing additional gross proceeds of $19.6 million. The implied premium on the flow-through shares was determined to be $3.6 million or $1.80 per flow-through share. The Company incurred approximately $13.2 million of qualifying expenditures from August 27, 2013 to December 31, 2013. During the first two months of 2014, the Company incurred the remaining $6.4 million of qualifying expenditures and as of February 28, 2014, the Company had fulfilled the full commitment. Qualifying expenditures in the amount of $19.6 million were renounced to investors in February 2014, with an effective renunciation date of December 31, 2013.

On April 5, 2013, Kelt completed brokered and non-brokered equity financings for aggregate gross proceeds of $94.35 million. Pursuant to an agreement with a syndicate of underwriters, the underwriters agreed to purchase for resale to the public, on a bought deal private placement basis, 11.0 million common shares at a price of $5.55 per common share, resulting in gross proceeds to the Company of $61.05 million. In conjunction with the brokered private placement, Kelt agreed to issue to certain directors, officers and employees of the Company, on a non-brokered basis, an additional 6.0 million common shares at a price of $5.55 per common share, resulting in additional gross proceeds of $33.3 million.

On February 26, 2013, the Arrangement described in note 4 was completed by way of a statutory plan of arrangement under Section 193 of the *Business Corporations Act* (Alberta). Pursuant to the Arrangement, the Purchaser acquired all of the issued and outstanding Celtic Shares, including Celtic Shares issued upon conversion of Celtic's 5% convertible debentures, for cash consideration of $24.50 per Celtic Share. In addition to the cash consideration, each Celtic shareholder received one-half (1/2) of a share of Kelt for each Celtic Share, resulting in the issuance of 61,126,119 Kelt common shares for consideration of $142.0 million. Concurrently with the closing of the Arrangement on February 26, 2013, Kelt also completed the private placement of 6.0 million common shares at a price of $2.32 per share for aggregate gross proceeds of approximately $13.92 million.

ii) 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, 2012	-	-
Granted	2,421	6.84
Balance at December 31, 2013	**2,421**	**6.84**
Granted	**1,352**	**12.33**
Exercised[1]	**(20)**	**6.47**
Forfeited	**(61)**	**8.17**
Balance at September 30, 2014	**3,692**	**8.83**

(1) The weighted average share price on the date of exercise for stock options exercised in 2014 was $12.85 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	
	2014	2013
Risk free interest rate	**1.3%**	1.2%
Expected life (years)	**3.4**	3.7
Expected volatility[1]	**33.9%**	54.4%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**1.2%**	0.0%
Fair value of options granted during the year ($/share)	**3.20**	2.66

(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, 2014:

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	2,457	3.6	6.95	683	6.47
$10.01 to $15.00	1,175	4.5	12.42	-	-
$15.01 to $20.00	60	4.7	15.40	-	-
Total	**3,692**	**3.9**	**8.83**	**683**	**6.47**

iii) 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, 2012	-
Granted	1,623
Balance at December 31, 2013	**1,623**
Granted	**202**
Forfeited	**(64)**
Balance at September 30, 2014	**1,761**

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	
	2014	2013	**2014**	2013
Stock options	**1,107**	814	**2,935**	1,769
Restricted share units	**1,334**	1,000	**3,572**	2,175
Total share based compensation expense	**2,441**	1,814	**6,507**	3,944

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	
	2014	2013	**2014**	2013
Weighted avg. common shares outstanding, basic	**126,681**	89,262	**120,100**	66,234
Effect of stock options and RSUs	**2,352**	567	**2,273**	326
Weighted avg. common shares outstanding, diluted	**129,033**	89,829	**122,373**	66,560

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 each of the three and nine month periods ended September 30, 2013, the Company excluded the effect of stock options and RSUs as they were anti-dilutive.

13. 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	
	2014	2013	**2014**	2013
Current income tax expense	**-**	-	**-**	-
Deferred income tax expense (recovery)	**5,281**	(1,107)	**15,195**	(1,993)
Total income tax expense (recovery)	**5,281**	(1,107)	**15,195**	(1,993)

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	
	2014	2013	**2014**	2013
Profit (loss) before income taxes	**6,466**	(3,507)	**24,567**	(5,270)
Canadian statutory tax rate	**25.09%**	25.00%	**25.09%**	25.00%
Expected income tax expense (recovery)	**1,622**	(877)	**6,164**	(1,318)
Increase (decrease) resulting from:				
Non-deductible expenses[1]	**619**	453	**1,640**	987
Recognition of unrecognized deferred tax asset	**(549)**	(683)	**(1,584)**	(1,662)
Qualifying expenditures on flow-through shares	**3,940**	-	**10,043**	-
Premium on flow-through shares	**(356)**	-	**(1,057)**	-
Other	**5**	-	**(11)**	-
Deferred income tax expense (recovery)	**5,281**	(1,107)	**15,195**	(1,993)

(1) Non-deductible expenses primarily include share based compensation

The Canadian statutory tax rate per the rate reconciliation above represents the estimated effective combined federal and provincial corporate tax rate. The enacted federal corporate tax rate is 15.0% and the provincial tax rate is 10.0% in Alberta and 11.0% in British Columbia.

Under the terms of the Arrangement and Common Control Transaction described in note 4, the Company acquired tax pools in the amount of $165.2 million relating to the Celtic Assets. The Company did not initially recognize a deferred income tax asset of $14.4 million related to the excess of tax pools acquired relative to the carrying value of the net assets transferred because the Common Control Transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 *Income taxes*. The unrecognized deferred income tax asset is being amortized based on the corporate weighted average depletion factor for the period.

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, 2013	Recognized in profit and CI[1]	Recognized in balance sheet	**Balance at September 30, 2014**
Derivative financial instruments	133	(156)	-	**(23)**
PP&E and E&E	(6,780)	(20,922)	(40,280)	**(67,982)**
Decommissioning obligations	11,792	4,993	100	**16,885**
Share and debt issue costs	2,599	(668)	1,565	**3,496**
Reserve from common control transaction	(12,445)	1,538	-	**(10,907)**
Non-capital losses[2]	6,658	20	2,602	**9,280**
	1,957	(15,195)	(36,013)	**(49,251)**

Deferred income tax asset (liability)	Balance at December 31, 2012	Recognized in profit and CI[1]	Recognized in balance sheet	Balance at December 31, 2013
Derivative financial instruments	-	133	-	133
PP&E and E&E	-	(6,780)	-	(6,780)
Decommissioning obligations	-	11,792	-	11,792
Share and debt issue costs	-	(539)	3,138	2,599
Reserve from common control transaction	-	(12,445)	-	(12,445)
Non-capital losses[2]	-	6,658	-	6,658
	-	(1,181)	3,138	1,957

(1) Comprehensive income has been abbreviated as "CI"
(2) The Company's non-capital losses expire in 16-20 years.

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 deferred income tax asset associated with derivative financial instruments is expected to reverse over the next twelve month period as it relates to short-term risk management contracts. The Company does not expect any other deferred income tax assets or liabilities to reverse within the next twelve months.

14. 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. Fair values of financial assets and liabilities, summarized information related to risk management positions, and discussion of risks associated with financial assets and liabilities are presented as follows:

Fair value of financial assets and liabilities	**September 30, 2014**		December 31, 2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	**14,964**	**14,964**	32,015	32,015
Accounts receivable and accrued revenue	**35,746**	**35,746**	13,082	13,082
Deposits	**795**	**795**	545	545
Derivative financial instruments	**90**	**90**	-	-
Financial liabilities				
Accounts payable and accrued liabilities	**89,311**	**89,311**	43,447	43,447
Derivative financial instruments	**-**	**-**	532	532
Bank debt	**-**	**-**	-	-

The fair values of cash and cash equivalents, accounts receivable and accrued revenue, deposits, accounts payable and accrued liabilities, and bank debt, approximate their carrying value due to the short-term maturity of those instruments. 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.

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, 2014:

	Level 1	Level 2	Level 3
Financial assets			
Derivative financial instruments	-	90	-

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, 2014**	December 31, 2013
Joint venture partners	**10,942**	5,771
Oil and gas marketers	**18,080**	4,384
GST input tax credits	**4,294**	1,981
Interest receivable	**18**	33
Risk management contracts	**19**	-
Other	**2,393**	913
Accounts receivable & accrued revenue	**35,746**	13,082

During the nine month period ended September 30, 2014, sales to three external customers each individually represented more than 10% of total revenue. Sales to these customers account for approximately 58%, 16%, and

15% of total revenue, respectively. During the previous nine month period ended September 30, 2013, sales to two external customers accounted for approximately 59% and 27% 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 balance of "other receivables" outstanding as of September 30, 2014 and December 31, 2013, includes accrued receivables related to closing adjustments on acquisitions.

The Company has an International Swaps and Derivatives Association ("ISDA") agreement with a Canadian chartered bank 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. Management has reviewed past due accounts receivable balances and expects the accounts to be fully collectible.

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, 2014	**33,192**	**1,127**	**532**	**895**	**35,746**
Balance at December 31, 2013	11,799	194	834	255	13,082

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 and bank debt (as at September 30, 2014, bank debt outstanding is nil). 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, 2014, the Company had a net working capital deficit of $37.2 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 net 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 discussed in note 10, Kelt has a $100.0 million committed term Credit Facility. The Credit Facility is available for a revolving period of 364 days, maturing on April 29, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 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. As at September 30, 2014, the Credit Facility is undrawn and the Company is in compliance with all covenants.

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 United States 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 financial derivative risk management contracts outstanding as of September 30, 2014:

Commodity	Notional volume	Pricing point	Contract Price	Remaining term	Fair value Asset (Liability)
Crude oil	500 bbls/d	NYMEX – WTI	CA$ 100.00/bbl	Oct 1 to Dec 31, 2014	**(53)**
Crude oil	500 bbls/d	NYMEX – WTI	CA$ 101.41/bbl	Oct 1 to Dec 31, 2014	**12**
Crude oil	500 bbls/d	NYMEX – WTI	CA$ 103.10/bbl	Oct 1 to Dec 31, 2014	**90**
Propane	150 bbls/d	OPIS-Conway	US$ 48.09/bbl	Oct 1 to Dec 31, 2014	**41**
Net derivative financial instrument asset					**90**

The fair value of the derivative contracts is sensitive to changes in commodity prices. If the Canadian dollar equivalent WTI price increases (decreases) by $1.00 per barrel, the total fair market value of the crude oil contracts would decrease (increase) by $0.1 million. If the Canadian dollar equivalent OPIS-Conway propane price increases (decreases) by $1.00 per barrel, the change in fair market value of the propane contract would be nominal.

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Realized loss	**(536)**	(606)	**(3,196)**	(378)
Unrealized gain/(loss)	**2,468**	(27)	**622**	(27)
Gain/(loss) on derivative financial instruments	**1,932**	(633)	**(2,574)**	(405)

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.

As at September 30, 2014, the Credit Facility is undrawn therefore the Company's exposure to interest rate risk is limited. The Company did not have any interest rate risk management contracts in place during the current or prior period.

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.

The Company did not have any foreign exchange rate contracts in place during the current or prior period.

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. Refer to the *Commodity price risk* section above for details of the Company's WTI oil contracts in place as of September 30, 2014, which are denominated in Canadian dollars.

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 net debt to trailing funds from operations ratio, which is a non-GAAP financial measure.

	September 30, 2014	December 31, 2013
Bank debt	**-**	-
Working capital deficiency (surplus)(1)	**37,309**	(22,213)
Net debt (surplus)	**37,309**	(22,213)
Trailing funds from operations(2)(3)	**127,196**	37,584
Net debt to trailing funds from operations ratio	**0.3x**	N/A(4)

(1) For the purposes of the net debt to trailing funds from operations ratio, working capital excludes bank debt, derivative financial instruments assets and liabilities, and the deferred premium on flow-through shares.

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

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

(4) The Company had a net surplus as at December 31, 2013, therefore the net debt to trailing funds from operations ratio is not applicable.

Kelt targets a net debt to trailing funds from operations ratio of less than 2.0 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.

As described in note 10, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at September 30, 2014, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

15. FINANCING EXPENSES

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Interest and fees on bank debt	**113**	31	**394**	51
Accretion of decommissioning obligations [note 11]	**443**	66	**1,232**	151
Financing expense	**556**	97	**1,626**	202

The Company did not draw on the Credit Facility and therefore did not incur any interest charges. Amounts reported as interest and fees on bank debt in the table above primarily relate to commitment fees and standby charges on the undrawn Credit Facility.

16. COMMITMENTS

The Company is committed to future payments under the following agreements:

(CA$ thousands)	2014	2015	2016	2017	2018	Thereafter
Operating lease – office buildings	219	860	878	892	373	133
Operating lease – vehicles	48	182	119	34	-	-
Firm transportation commitments	721	2,840	1,120	13	-	-
Total annual commitments	**988**	**3,882**	**2,117**	**939**	**373**	**133**

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

The Company has a $100.0 million Credit Facility which is undrawn at September 30, 2014. 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.

On March 25, 2014, the Company issued 2.635 million flow-through shares at a price of $12.75 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 September 30, 2014, the Company had incurred the full commitment of $33.6 million. Kelt shall renounce the Qualifying Expenditures so incurred to the purchasers of the flow-through common shares in an amount equal to $12.75 per flow-through common share on or prior to December 31, 2014.

17. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital, excluding bank debt:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Accounts receivable and accrued revenue	**(4,236)**	85	**(17,329)**	(8,994)
Prepaid expenses and deposits	**(316)**	(103)	**(322)**	(786)
Accounts payable and accrued liabilities	**25,518**	(5,880)	**35,575**	23,434
Change in non-cash working capital	**20,966**	(5,898)	**17,924**	13,654
Relating to:				
Operating activities	**1,127**	2,110	**(1,602)**	(1,235)
Investing activities	**19,839**	(8,008)	**19,526**	14,889
Change in non-cash working capital	**20,966**	(5,898)	**17,924**	13,654

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	
	2014	2013	**2014**	2013
Interest and standby fees on bank debt	**113**	27	**222**	40
Taxes	**-**	-	**-**	-

18. 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 of 2014, the Company incurred $0.4 million (2013 – $0.4 million) in legal fees and disbursements, of which, less than $0.1 million is payable at September 30, 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
CICA	Canadian Institute of Chartered Accountants
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

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

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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common Shares “KEL”

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