THIRD QUARTER REPORT

AS AT AND FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2017

FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
FINANCIAL						
Revenue, before royalties and financial instruments	**56,422**	47,760	18	**176,719**	128,876	37
Adjusted funds from operations [1]	**22,957**	17,658	30	**75,113**	35,280	113
Basic ($/ common share) [1]	**0.13**	0.10	30	**0.43**	0.20	115
Diluted ($/ common share) [1]	**0.13**	0.10	30	**0.42**	0.20	110
Loss and comprehensive loss	**(10,653)**	(15,299)	-30	**(17,789)**	(61,630)	-71
Basic ($/ common share)	**(0.06)**	(0.09)	-33	**(0.10)**	(0.36)	-72
Diluted ($/ common share)	**(0.06)**	(0.09)	-33	**(0.10)**	(0.36)	-72
Total capital expenditures, net of dispositions	**75,933**	12,616	502	**72,199**	61,929	17
Total assets	**1,227,962**	1,232,147	0	**1,227,962**	1,232,147	0
Bank debt, net of working capital [1]	**134,759**	132,471	2	**134,759**	132,471	2
Convertible debentures	**73,584**	70,134	5	**73,584**	70,134	5
Shareholders' equity	**830,344**	823,887	1	**830,344**	823,887	1
Weighted average shares outstanding (000s)						
Basic	**176,013**	174,349	1	**175,875**	172,338	2
Diluted	**177,206**	174,671	1	**177,204**	172,585	3
OPERATIONS						
Average daily production						
Oil (bbls/d)	**6,881**	4,606	49	**6,206**	5,179	20
NGLs (bbls/d)	**2,714**	2,960	-8	**2,348**	2,778	-15
Gas (mcf/d)	**77,489**	77,854	0	**75,524**	80,327	-6
Combined (BOE/d)	**22,510**	20,542	10	**21,141**	21,345	-1
Production per million common shares (BOE/d) [1]	**128**	118	8	**120**	124	-3
Average realized prices, before financial instruments						
Oil ($/bbl)	**53.22**	52.47	1	**56.51**	44.64	27
NGLs ($/bbl)	**24.34**	17.96	36	**26.79**	16.82	59
Gas ($/mcf)	**2.33**	2.88	-19	**3.09**	2.39	29
Operating netbacks ($/BOE) [1]						
Petroleum and natural gas revenue	**27.24**	25.27	8	**30.62**	22.04	39
Cash premiums on derivatives	**-**	0.13	-100	**-**	0.04	-100
Realized gain (loss) on financial instruments	**0.02**	0.07	-71	**(0.06)**	0.02	-400
Average realized price, after financial instruments	**27.26**	25.47	7	**30.56**	22.10	38
Royalties	**(2.46)**	(2.55)	-4	**(2.84)**	(1.83)	55
Production expense	**(9.19)**	(8.43)	9	**(9.67)**	(9.23)	5
Transportation expense	**(2.75)**	(2.76)	0	**(3.14)**	(2.78)	13
Operating netback [1]	**12.86**	11.73	10	**14.91**	8.26	81
Undeveloped land						
Gross acres	**775,485**	717,641	8	**775,485**	717,641	8
Net acres	**657,175**	596,957	10	**657,175**	596,957	10

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. (“Kelt” or the “Company”) reports its financial and operating results to shareholders for the third quarter ended September 30, 2017.

Average production for the three months ended September 30, 2017 was 22,510 BOE per day, up 9% compared to average production of 20,684 BOE per day during the previous quarter ended June 30, 2017 and up 10% compared to average production of 20,542 BOE per day during the quarter ended September 30, 2016. Year-over-year, Kelt’s oil production has increased significantly, averaging 6,881 barrels per day during the third quarter of 2017, up 49% from average oil production of 4,606 barrels per day in the third quarter of 2016.

Kelt expects to exit 2017 with approximately 27,500 BOE per day of estimated production, up 4% from its previous estimate of 26,500 BOE per day. Estimated exit production (average production for the month of December) does not include eight wells that are expected to be drilled in 2017 and put on production in 2018. These include a five-well pad at Pouce Coupe targeting Montney Oil and three wells at Inga – two of which are targeting the Upper Montney and the third of which is targeting the Middle Montney. Average production for 2017 is estimated to be 21,800 BOE per day (previous forecast was 22,500 BOE per day) and is estimated to be weighted 42% to oil and NGLs and 58% to gas. The reduction in forecasted 2017 production reflects the previously announced shut-in of approximately 4,770 BOE (92% gas) per day in both Alberta and British Columbia due to low domestic gas prices. The majority of this production was brought back on-stream in early November to coincide with the start of Kelt’s new gas contracts outside of the AECO and Station 2 Gas Hubs.

In October 2017, Kelt completed non-brokered private placements by issuing shares on a flow-through basis in respect of CEE and CDE resulting in gross proceeds of $20.6 million. The Company’s Board of Directors has increased Kelt’s 2017 capital expenditure budget to $226.0 million ($115.0 million net after dispositions), up 12% from its previous budget of $202.0 million ($91.0 million net after dispositions). The increase will allow the Company to move certain drilling projects, originally planned for the first quarter of 2018, forward to the fourth quarter of 2017, giving Kelt the ability to take advantage of favourable service costs that could potentially be higher in the first quarter of 2018.

Kelt’s realized average oil price during the third quarter of 2017 was $53.22 per barrel, up 1% from $52.47 per barrel in the third quarter of 2016. The realized average NGLs price during the third quarter of 2017 was $24.34 per barrel, up 36% from $17.96 per barrel in the corresponding quarter of 2016. Kelt’s realized average gas price for the third quarter of 2017 was $2.33 per MCF, down 19% from $2.88 per MCF in the third quarter of the previous year.

For the three months ended September 30, 2017, revenue was $56.4 million and adjusted funds from operations was $23.0 million ($0.13 per share, diluted), compared to $47.8 million and $17.7 million ($0.10 per share, diluted) respectively, in the third quarter of 2016. At September 30, 2017, bank debt, net of working capital was $134.8 million, up 2% from $132.5 million at September 30, 2016.

Capital expenditures incurred during the three months ended September 30, 2017 were $75.9 million. The Company spent $45.7 million (60%) on drilling and completion operations, $24.6 million (33%) on facilities, pipelines and equipment and $5.6 million (7%) on land and seismic.

Positive indicators have started to appear that may lead to higher oil and gas prices in 2018:

- U.S. crude oil exports increased substantially in October 2017 and U.S. crude oil inventories continue to decline;
- The Brent-WTI crude oil price differential in October 2017 has widened, potentially implying that global crude oil supply/demand has tightened;
- U.S. natural gas exports (to Mexico and LNG) continue to grow; and
- U.S. natural gas storage at the end of the winter withdrawal season in 2016 has gone from a 1.0 tcf surplus compared to the previous year to current gas storage that is below the comparative period of the previous year.

Kelt is forecasting WTI crude oil to average US$52.00 per barrel in 2018, up 4% from the estimated average price of US$50.00 per barrel in 2017. AECO natural gas prices are forecasted to average $2.15 per GJ in 2017, unchanged from the Company’s estimated average AECO price in 2017. Kelt is expecting to realize a premium (prior to adjusting

for heat content) of approximately 30% to the average forecasted AECO price in 2018 as a result of its diversified portfolio of gas marketing contracts.

The Company's Board of Directors has approved an initial capital expenditure budget of $210.0 million for 2018. Kelt expects to drill 21 gross (19.5 net) wells in 2018, however the Company expects to complete 29 gross (27.5 net) wells in 2018 as there are expected to be 8 gross (8.0 net) drilled but un-completed ("DUC") wells from 2017.

Kelt has prepared its 2018 budget based on capital expenditures of $210.0 million and with management's forecasted commodity prices the following results are projected:

- Estimated average production of 28,500 to 29,500 BOE per day;
- Production mix is expected to be weighted 47% to oil/NGLs and 53% to gas;
- Operating income is expected to be derived 83% from oil/NGLs and 17% from gas;
- Estimated funds from operations of $175.0 million ($0.97 per share, diluted); and
- Estimated bank debt, net of working capital as at December 31, 2018 of $155.0 million (0.9 times forecasted 2018 funds from operations).

Kelt is currently unhedged on oil/NGLs in 2018. As a result, a 10% change in the Company's forecasted average oil/NGLs price for 2018 would change forecasted funds from operations by approximately $21.0 million.

The Company is well positioned financially to execute its budgeted capital program during 2018, leading into the year with strong operational momentum.

Management looks forward to updating shareholders with 2017 fourth quarter and year-end results on or about March 7, 2018.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
November 8, 2017

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 northwestern Alberta and northeastern British Columbia ("BC"). The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 and was inactive until February 26, 2013. Kelt's land holdings are located in two core areas, namely: (a) Grande Prairie, Alberta (including Pouce Coupe, Progress and La Glace), held directly by Kelt; and (b) Fort St. John, BC (including Inga, Fireweed and Stoddart), held by the Company's wholly-owned subsidiary, Kelt Exploration (LNG) Ltd. ("Kelt LNG"). The head office of the Company is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2. The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively.

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 8, 2017 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three and nine months ended September 30, 2017 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2016. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook - Accounting* ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the condensed consolidated interim financial statements for issue on November 8, 2017.

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", "potentially" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the following: the anticipated improvement in Kelt's price realizations for its oil and butane sales following completion of the installation of blending facilities at the Company's three main oil terminals; the expectation that the recent purchase of a major infrastructure package in northeastern BC (refer to additional information under the heading of *"Capital Expenditures"*) will reduce the Company's production expenses in the future; the objective to bring approximately 4.8 MMcf/d of gas production that is behind pipe in BC back on-stream in January 2018 after adding booster compression; Kelt's intention to incur sufficient qualifying expenditures to fully satisfy the Company's flow-through share commitments; the Company's ability to continue accumulating land at a low-cost in its core operating areas and potentially monetize non-core assets; positive indicators in the current economic environment that the Company believes may lead to higher oil and gas prices in 2018; and the Company's expected future financial position and operating results, as well as the amount and timing of future development capital expenditures. Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Actual reserves may be greater than or less than the estimates provided herein.

Although Kelt believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Kelt cannot give any assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; failure to obtain necessary regulatory approvals for planned operations; health, safety and environmental risks; uncertainties

resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; volatility of commodity prices, currency exchange rate fluctuations; imprecision of reserve estimates; and competition from other explorers) as well as general economic conditions, stock market volatility; and the ability to access sufficient capital. We caution that the foregoing list of risks and uncertainties is not exhaustive.

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

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

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 implements a full cycle exploration program, resulting in exploration and development drilling based on opportunities generated internally. From time to time, Kelt may complement its exploration and development drilling program by acquiring strategic oil and gas properties in order to further enhance its opportunity base.

Kelt 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 northwestern 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

On January 18, 2017, Kelt completed the disposition of the majority of its oil and gas assets in the Karr area of Alberta (the "Karr Property Disposition") for cash proceeds of $103.1 million after closing adjustments. At the time of the disposition, the assets were producing approximately 1,300 BOE per day (50% oil and NGLs). The Company's operating results for the nine months ended September 30, 2017 include production and operating income from the assets disposed for the 17 day period prior to closing on January 18, 2017. Additional information regarding the Karr Property Disposition is provided under the heading of "Capital Expenditures" in this MD&A.

- Production averaged 22,510 BOE per day (43% oil/NGLs) during the third quarter of 2017, up 9% from 20,684 BOE per day (38% oil/NGLs) in the second quarter of 2017, and up 10% compared to 20,542 BOE per day (37% oil/NGLs) during the third quarter of 2016.
- Kelt's oil production has increased significantly, averaging 6,881 barrels per day during the third quarter of 2017, up 49% from average oil production of 4,606 barrels per day in the third quarter of 2016.
- Revenue for the quarter ended September 30, 2017 was $56.4 million, up 18% from $47.8 million in the same quarter of 2016. Kelt's combined average realized price of $27.24 per BOE during the third quarter of 2017 is 8% higher than the average price of $25.27 per BOE realized in the third quarter of 2016, reflecting the significant increase in Kelt's corporate average oil production weighting, which more than offset the impact of lower gas prices on the Company's revenue during the third quarter of 2017.
- Adjusted funds from operations of $23.0 million ($0.13 per common share, diluted) during the third quarter of 2017 increased by 30% from $17.7 million ($0.10 per common share, diluted) in the third quarter of 2016.
- During the three months ended September 30, 2017, corporate royalty rates averaged 9.0% of revenue, production expense averaged $9.19 per BOE, transportation expenses were $2.75 per BOE, interest expense was $0.98 per BOE and G&A expense was $0.79 per BOE.
- Kelt's operating netback was $12.86 per BOE for the quarter ended September 30, 2017, up 10% from $11.73 per BOE during the quarter ended September 30, 2016.

- Capital expenditures were $75.9 million during the third quarter of 2017, of which Kelt spent $5.6 million on land and seismic, $45.7 million drilling and completing wells, and $24.6 million on facilities, pipelines and equipment, including the purchase of a major infrastructure package for $12.5 million on July 31, 2017 (refer to additional information under the heading of *"Capital Expenditures"*).
- As at September 30, 2017, the Company had drawn $93.0 million on its revolving bank credit facility with an authorized borrowing amount of $185.0 million. Including working capital, Kelt's net bank debt represents 73% of the authorized borrowing amount under the Credit Facility.

Subsequent to the quarter ended September 30, 2017, Kelt raised gross proceeds of $20.6 million through equity private placements (refer to additional information under the heading of *"Subsequent Events"*). Kelt is well positioned to execute on its capital expenditure programs for the remainder of 2017 and 2018 and has sufficient financial flexibility to take advantage of opportunities as they arise.

PRODUCTION AND REVENUE

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Average daily production:						
Oil (bbls/d)	**6,881**	4,606	49	**6,206**	5,179	20
NGLs (bbls/d)	**2,714**	2,960	-8	**2,348**	2,778	-15
Gas (mcf/d)	**77,489**	77,854	0	**75,524**	80,327	-6
Combined (BOE/d)	**22,510**	20,542	10	**21,141**	21,345	-1
Average realized prices, before financial instruments:						
Oil ($/bbl)	**53.22**	52.47	1	**56.51**	44.64	27
NGLs ($/bbl)	**24.34**	17.96	36	**26.79**	16.82	59
Gas ($/mcf)	**2.33**	2.88	-19	**3.09**	2.39	29
Combined ($/BOE)	**27.24**	25.27	8	**30.62**	22.04	39
Revenue, before royalties and financial instruments:						
Oil	**33,694**	22,232	52	**95,747**	63,344	51
NGLs	**6,077**	4,890	24	**17,174**	12,803	34
Gas	**16,651**	20,638	-19	**63,798**	52,729	21
Revenue, before royalties and financial instruments	**56,422**	47,760	18	**176,719**	128,876	37

Production averaged 22,510 BOE per day during the third quarter of 2017, up 9% from 20,684 BOE per day in the second quarter of 2017 and up 10% compared to the third quarter of 2016. The increase in production is driven by strong results from the Company's active development drilling program in its core areas in Alberta and BC, which targeted multiple zones of its Montney acreage. New production added as the multi-well pads were brought on stream during 2017 more than offset the impact of the Karr Property Disposition and also contributed to the significant increase in oil production. Oil and NGLs production represented 43% of corporate average production during the third quarter of 2017 compared to 37% on average during 2016.

Kelt's average production reported for the first nine months of 2017 of 21,141 BOE per day is 1% lower than the comparative period of 2016 as a result of the Karr Property Disposition which closed on January 18, 2017. Average production during the nine months ended September 30, 2016 included approximately 1,600 BOE per day of production from the assets disposed at Karr, which were producing approximately 1,300 BOE per day (50% oil and NGLs) at the time of the disposition.

Revenue for the three months ended September 30, 2017 was $56.4 million, up 18% from $47.8 million during the same three month period of 2016. Kelt's combined average realized price of $27.24 per BOE during the third quarter of 2017 is 8% higher than the average price of $25.27 per BOE realized in the third quarter of 2016, reflecting the significant increase in Kelt's corporate average oil production weighting, which more than offset the impact of lower gas prices on the Company's revenue during the third quarter of 2017. The Canadian dollar strengthened relative to

the US dollar during the third quarter of 2017 resulting in lower realized oil and NGLs prices compared to the second quarter of 2017.

Revenue of $176.7 million for the first nine months of 2017 is also up 37% despite production volumes being 1% lower than the comparative period, as realized commodity prices were significantly higher on average. The Company's combined average sales price was $30.62 per BOE for the nine month period ended September 30, 2017, up 39% from $22.04 per BOE during the nine month period ended September 30, 2016.

OIL OPERATIONS

References to "oil" in this discussion includes crude oil and field condensate (see "Other Measurements" for additional references).

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Oil production (bbls per day)	**6,881**	4,606	49	**6,206**	5,179	20
Oil revenue, before royalties and financial instruments	**33,694**	22,232	52	**95,747**	63,344	51
Average realized oil prices ($/bbl):						
Before financial instruments	**53.22**	52.47	1	**56.51**	44.64	27
Realized gain (loss) on financial instruments	**-**	-	-	**-**	-	-
After financial instruments	**53.22**	52.47	1	**56.51**	44.64	27
Average realized price, percentage of CLS	**93%**	97%		**93%**	89%	
Benchmark oil prices:						
WTI Cushing Oklahoma (US$/bbl) (1)	**48.20**	44.94	7	**49.47**	41.33	20
WTI Cushing Oklahoma (CA$/bbl) (2)	**60.38**	58.61	3	**64.66**	54.40	19
Canadian Light Sweet ("CLS") ($/bbl) (1)	**57.15**	54.19	5	**60.57**	50.14	21
CLS % of CA$WTI	**95%**	92%	2	**94%**	92%	2
Average exchange rate (CA$/US$) (1)	**1.2529**	1.3041	-4	**1.3055**	1.3205	-1

(1) Source: Sproule Associates Limited.

(2) Source: Sproule Associates Limited, Canadian dollar equivalent price WTI price ("CA$WTI") is calculated based on monthly average US$WTI price and the monthly average CA$/US$ exchange rate.

The Company's oil revenue for the first nine months of 2017 is up 51% from the comparative period of 2016, driven by the increase in oil production and higher oil prices. Kelt realized an average price for its oil sales of $56.51 per barrel during the nine months ended September 30, 2017, up from $44.64 per barrel during the nine months ended September 30, 2016. Global crude oil prices have recovered significantly from the historical lows during the first quarter of 2016, in which WTI bottomed with a low average price of US$30.62 (CA$42.22) per barrel during February 2016. In February 2017, WTI averaged US$53.46 (CA$70.09) per barrel, its highest level over the past 24 month period. WTI averaged US$48.20 (CA$60.38) per barrel during the third quarter of 2017, compared to US$48.29 (CA$64.92) in the second quarter of 2017. While the US$WTI oil price is relatively unchanged, the appreciation of the Canadian dollar during the third quarter of 2017 resulted in a 7% decrease in the equivalent CA$WTI price compared to the second quarter of 2017.

Kelt's average realized oil price of $53.22 per barrel during the third quarter of 2017 is 6% lower than the average price of $56.80 per barrel realized during the second quarter of 2017, reflecting the impact of the stronger Canadian dollar. The CA$/US$ exchange rate averaged $1.2529 during the quarter ended September 30, 2017 compared to $1.3440 during the previous quarter ended June 30, 2017.

The Company's realized oil price is discounted to benchmark oil prices as the base price paid by purchasers is adjusted for quality and is net of all applicable fees and deductions, including pipeline tariffs or location differentials. These tariffs and differentials vary depending on the delivery point, but do not fluctuate with oil prices. Pipeline tariffs

are classified as transportation expenses when the Company has firm commitments or contractual arrangements on the pipeline. Refer to further discussion under the heading of *"Transportation Expenses"*.

The average discount of Kelt's realized oil price relative to the CLS reference price was $3.93 per barrel (7% of CLS) during the third quarter and $4.06 per barrel (7% of CLS) on average during the first nine months of 2017. The average discount was $1.72 per barrel (3% of CLS) and $5.50 per barrel (11% of CLS) on average during the comparative three and nine month periods of 2016, respectively. The decrease in Kelt's year-to-date average oil price discount in 2017 reflects improved contract pricing. In addition, as benchmark oil prices are higher in 2017, the fixed deductions represent a lower percentage of the base price.

NGL OPERATIONS

References to "NGLs" in this discussion includes pentanes (C5 and C5+), butane (C4), propane (C3) and ethane (C2) (see "Other Measurements" for additional references).

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
NGLs production (bbls per day)	**2,714**	2,960	-8	**2,348**	2,778	-15
NGLs barrels per MMCF of natural gas sales	**35**	38	-8	**31**	35	-11
NGLs revenue, before royalties and financial instruments	**6,077**	4,890	24	**17,174**	12,803	34
Average realized NGLs price ($/bbl):						
Before financial instruments	**24.34**	17.96	36	**26.79**	16.82	59
Realized gain (loss) on financial instruments	**(1.49)**	-	-	**(0.64)**	-	-
After financial instruments	**22.85**	17.96	27	**26.15**	16.82	55
Average realized price, percentage of CA$WTI (1)	**40%**	31%		**41%**	31%	
Benchmark NGLs prices (2) ($/bbl):						
Edmonton Pentane	**61.42**	56.82	8	**65.04**	52.66	24
% of CA$WTI	**102%**	97%	5	**101%**	97%	4
Edmonton Butane	**39.90**	33.20	20	**41.04**	31.64	30
% of CA$WTI	**66%**	57%	16	**63%**	58%	9
Edmonton Propane	**26.66**	12.22	118	**24.89**	9.77	155
% of CA$WTI	**44%**	21%	110	**38%**	18%	111
Edmonton Ethane	**4.47**	6.54	-32	**6.55**	5.18	26
% of CA$WTI	**7%**	11%	-36	**10%**	10%	-

(1) Average realized NGLs price, before financial instruments, divided by the Canadian dollar equivalent WTI reference price for the period.

(2) Source: Sproule Associates Limited.

Kelt realized an average price for its NGL sales of $26.79 per barrel (41% of CA$WTI) during first nine months of 2017, up 59% from $16.82 per barrel (31% of CA$WTI) during the same period of 2016. The increase in NGL prices is primarily attributed to the underlying recovery of WTI crude oil prices compared to 2016, as well as the dramatic recovery of propane prices. In addition, the Company's NGLs marketing contracts were renegotiated effective April 1, 2017 under favorable terms, including lower fixed deductions.

Kelt's average realized NGLs price of $24.34 per barrel during the third quarter of 2017 is up 36% from $17.96 per barrel in the third quarter of 2016, but down 16% compared to $29.04 per barrel in the second quarter of 2017. The decrease in Kelt's average NGLs price compared to the second quarter is due to lower realized pentane and butane prices driven by the weaker CA$/US$ exchange rate, which negatively impacted the Canadian dollar equivalent WTI benchmark price during the third quarter of 2017.

Propane prices continued to strengthen during the third quarter of 2017. The OPIS-Conway propane price averaged US$30.64 per barrel (64% of US$WTI), up 24% from the average price of US$24.70 per barrel (51% of US$WTI)

during the second quarter 2017. Propane sales represent approximately 30% of Kelt's total NGLs production. In January 2017, Kelt entered into a financial derivative contract to lock-in the recovery of propane prices by fixing the OPIS-Conway propane price at 50% of US$WTI a notional 500 barrels per day, for the period from February 1 to December 31, 2017. As a result of stronger than expected OPIS-Conway pricing, Kelt realized a loss of $0.4 million under the contract during the quarter ended September 30, 2017.

The Company reported an increase in NGLs revenue for both the three and nine month periods ended September 30, 2017, relative to the comparative periods of 2016, as the significant improvement in realized NGLs prices more than offset lower NGLs production. NGLs production decreased during 2017 as a result of lower gas production and a slight decrease in Kelt's corporate average NGLs yield. During 2017, production growth from the Company's Alberta properties outpaced the growth in production from its liquids-rich gas properties in BC. While the Company's BC properties yield more NGLs barrels per MMCF of natural gas, the NGLs extracted in Kelt's Alberta operations attract a higher average price (approximately 47% NGLs barrels produced in Alberta are C5/C5+).

GAS OPERATIONS

References to "gas" in this discussion includes natural gas and sulphur (see "Other Measurements" for additional references).

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Gas production (MCF per day)	**77,489**	77,854	0	**75,524**	80,327	-6
Gas revenue, before royalties and financial instruments	**16,651**	20,638	-19	**63,798**	52,729	21
Average realized gas price ($/MCF):						
Before financial instruments	**2.33**	2.88	-19	**3.09**	2.39	29
Cash premium on financial instruments	**-**	0.04	-100	**-**	0.01	-
Realized gain (loss) on financial instruments	**0.06**	0.02	200	**-**	0.01	-100
After financial instruments	**2.39**	2.94	-19	**3.09**	2.41	28
Kelt average premium (discount) to AECO 5A (1)	**61%**	24%		**34%**	30%	
Benchmark gas prices:						
NYMEX Henry Hub (US$/MMBtu) (2)	**2.97**	2.78	7	**3.12**	2.26	38
AECO 5A (CA$/GJ) (3)	**1.38**	2.20	-37	**2.19**	1.75	25
Platts Chicago City-Gate (CA$/MMBtu) (4)	**3.54**	3.63	-2	**3.80**	3.05	25
Sumas/Huntingdon ("Sumas") (CA$/MMBtu) (5)	**3.05**	3.16	-3	**3.60**	2.59	39
Spectra Station 2 Day Ahead Index (CA$/GJ) (6)	**0.83**	1.83	-55	**1.80**	1.43	26

(1) Kelt's average realized price (before financial instruments) relative to AECO 5A (CA$/MMBtu) assumes 1 MMBtu = 1 MCF.

(2) Source: Canadian Gas Price Reporter (Henry Hub 3-Day Average Close).

(3) Source: Canadian Gas Price Reporter (NGX AB-NIT Same Day Index 5A).

(4) Source: Platts Chicago City-Gate (US$/MMBtu) per Tidal Energy Marketing Inc. The Canadian dollar equivalent Chicago City-Gate price is calculated based on monthly average US$ price and the monthly average CA$/US$ exchange rate.

(5) Source: Canadian Gas Price Reporter (Sumas/Huntingdon (US$/MMBtu). The Canadian dollar equivalent Sumas price is calculated based on monthly average US$ price and the monthly average CA$/US$ exchange rate.

(6) Source: Canadian Gas Price Reporter (NGX Spectra Station #2 Day Ahead Index).

While year-to-date average gas prices during 2017 have recovered significantly from the lows during the first half of 2016, ongoing pipeline maintenance and egress issues in western Canada continue to impact the industry, with gas prices becoming increasingly volatile through the third quarter. The AECO 5A index price averaged $1.55/GJ, $1.65/GJ and $0.93/GJ during the months of July, August and September 2017, respectively, resulting in an average price of $1.38/GJ during the three month period ended September 30, 2017. By comparison, Kelt realized an average price for its gas sales of $2.33 per MCF during the quarter ended September 30, 2017, representing a 61% premium to the AECO 5A reference price[1].

Kelt receives a premium to the AECO 5A gas price due to the higher heat content of its gas production as well as various gas marketing arrangements that the Company has in place to diversify and gain exposure to alternative markets. Gas sales under AECO based contracts represented 60-65% of the Company's total gas production during the periods ended September 30, 2017 and 2016, and Kelt received Chicago-City Gate pricing on approximately 25-30% of its gas production. In addition, effective November 1, 2016, a portion of the Company's BC gas production which was previously sold at discounted Station 2 prices, received Sumas pricing less a fixed differential. As the AECO gas market weakened significantly during the third quarter of 2017, the discount to the Chicago City-Gate and Sumas markets widened, contributing to the increase in Kelt's average realized premium relative to AECO 5A compared to 2016. The impact of the higher realized gas price on Kelt's funds from operations is partially offset by higher tolls on the Alliance pipeline, which are included in transportation expenses.

Effective November 1, 2017, Kelt has several new natural gas marketing and transportation contracts in place to provide the Company with exposure to diversified gas price hubs. Refer to additional information under the heading of *"Subsequent Events – Gas Marketing Update".*

ROYALTIES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Royalties, before Crown Cost Allowances:						
Oil	**4,356**	4,072	7	**13,221**	9,390	41
NGLs	**1,028**	1,161	-11	**3,095**	2,874	8
Gas	**945**	994	-5	**4,154**	3,346	24
Total, before Crown Cost Allowances	**6,329**	6,227	2	**20,470**	15,610	31
Crown Cost Allowances (1)	**(1,222)**	(1,412)	-13	**(4,098)**	(4,902)	-16
Royalties	**5,107**	4,815	6	**16,372**	10,708	53
Royalties, before Crown Cost Allowances:						
Oil (% of oil revenue)	**12.9%**	18.3%	-30	**13.8%**	14.8%	-7
NGLs (% of NGLs revenue)	**16.9%**	23.7%	-29	**18.5%**	22.4%	-18
Gas (% of gas revenue)	**5.7%**	4.8%	19	**6.5%**	6.3%	3
Total, before Crown Cost Allowances (% of revenue)	**11.2%**	13.0%	-14	**11.6%**	12.1%	-4
Crown Cost Allowances (% of total revenue)	**-2.2%**	-3.0%	-27	**-2.3%**	-3.8%	-39
Royalties (% of total revenue)	**9.0%**	10.0%	-10	**9.3%**	8.3%	12

(1) "Crown Cost Allowances" include Alberta Crown Gas Cost Allowance ("GCA") and BC Producer Cost of Service ("PCOS").

Kelt's corporate average royalty rate was 9.0% during the third quarter of 2017, down from 10.0% during the same quarter of 2016. Year-to-date in 2017, royalties averaged 9.3% of revenue compared to 8.3% in the same period of 2016. The change in Kelt's corporate average royalty rate is primarily driven by lower royalties on new production that qualifies for various royalty frameworks, offset by the decrease in Crown Cost Allowances.

Oil royalties averaged 12.9% of oil revenue during the quarter ended September 30, 2017, down from 18.3% in the comparative quarter of 2016. The decrease is primarily due to lower royalties on new production that qualifies for various royalty incentives, including favorable treatment under the Alberta Modernized Royalty Framework ("MRF") which came into effect January 1, 2017. The increase in oil production from wells recently drilled in BC and Alberta that were brought on production during the third quarter of 2017, contributed to the decrease in corporate average oil royalty rate compared to the second quarter of 2017, in which oil royalties averaged 13.7%.

NGL royalties averaged 16.9% of NGLs revenue during the third quarter of 2017 compared to 23.7% in the third quarter of 2016. NGLs royalty rates do not fluctuate with NGLs prices, but are reduced by certain drilling incentive credits. In addition, Kelt's corporate average NGLs royalty rate is impacted by the relative weighting of NGLs royalties in BC and Alberta.

Gas royalties (before Crown Cost Allowances) averaged 6.5% of gas revenue during the nine month period ended September 30, 2017, up from 6.3% in the comparative period of 2016. The impact of higher natural gas prices on the royalty rate was more than offset by royalty incentives on new gas production.

Crown royalties are reduced by Crown Cost Allowances including BC Producer Cost of Service ("PCOS") and Alberta Gas Cost Allowance ("GCA") credits which do not fluctuate with gas prices. The Company has estimated total GCA and PCOS credits of $4.1 million for the first nine months of 2017, down compared to $4.9 million estimated during the comparative nine month period of 2016. There are numerous factors that impact the amount of PCOS and GCA, however, the decrease in total estimated Crown Cost Allowances is primarily due to the Karr Property Disposition.

PRODUCTION EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Production expense	**19,025**	15,937	19	**55,816**	53,973	3
$ per BOE	**9.19**	8.43	9	**9.67**	9.23	5

Production expenses averaged $9.19 per BOE during the third quarter of 2017. Total production expenses during the three months ended September 30, 2017 of $19.0 million were in line with the previous quarter ended June 30, 2017 ($19.3 million), however, per unit production expenses are down 11% compared to $10.27 per BOE in the second quarter of 2017, reflecting the 9% increase in production quarter over quarter.

Production expenses averaged $9.67 per BOE during the first nine months of 2017, compared to $9.23 per BOE in the same period of 2016. The Company performed various maintenance operations and production optimization workovers during the period ended September 30, 2017.

TRANSPORTATION EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Transportation expense (1)	**5,691**	5,211	9	**18,129**	16,266	11
$ per BOE	**2.75**	2.76	0	**3.14**	2.78	13

(1) Pipeline tariffs are classified as transportation expenses when the Company has firm commitments or contractual arrangements on the pipeline. Pipeline tariffs may also be incurred indirectly by way of deduction from the base price paid by the purchasers of the Company's oil, NGLs and gas sales. In the latter case, and in the absence of a firm contractual obligation on the pipeline, the pipeline tariffs are presented as a reduction of revenue rather than as transportation expense.

Transportation expenses averaged $2.75 per BOE during the three months ended September 30, 2017, down 18% compared to average transportation expenses during the first half of 2017 of $3.36 per BOE. The decrease is driven by significantly lower oil trucking expenses during the third quarter. In Alberta, the Company incurred high trucking costs in March and April to handle new oil production from its five-well pad at Pouce Coupe, prior to completing construction of the pipeline connection from Kelt's Pouce facility located at 6-33 to the sales line at Progress 6-19. Although Kelt's BC oil production is pipeline connected, the Company was required to truck BC volumes to terminals in Alberta at certain times due to pipeline outages, which also caused trucking rates to increase due to high demand. Effective June 2017, the majority of Kelt's BC oil production was sold under a new marketing arrangement whereby the pipeline tariffs are deducted from the purchase price.

FINANCING EXPENSES

(CA$ thousands, unless otherwise indicated)	Three months ended September 30			Nine months ended September 30		
	2017	2016	%	**2017**	2016	%
Interest and fees on bank debt	**904**	1,640	-45	**2,297**	5,932	-61
Interest on convertible debentures	**1,134**	1,134	0	**3,366**	1,849	82
Total interest expense	**2,038**	2,774	-27	**5,663**	7,781	-27
Accretion of convertible debentures	**899**	814	10	**2,606**	1,301	100
Accretion of decommissioning obligations	**743**	759	-2	**2,207**	2,262	-2
Total financing expense	**3,680**	4,347	-15	**10,476**	11,344	-8
Interest expense per BOE (1)	**0.98**	1.47	-33	**0.98**	1.33	-26
Average principal amount outstanding during period:						
Bank debt	**83,243**	130,223	-36	**59,708**	159,770	-63
Convertible debentures	**90,000**	90,000	-	**90,000**	49,599	81
Average total principal amount of debt outstanding	**173,243**	220,223	-21	**149,708**	209,369	-28

(1) Interest expense used in the calculation of "Interest expense per BOE" includes interest and fees on bank debt and accrued cash interest on convertible debentures.

The Company's total interest expense paid or payable in cash of $2.0 million ($0.98 per BOE) for the quarter ended September 30, 2017 is down 27% from the comparative quarter due to the significant decrease in average total debt outstanding following completion of the Karr Property Disposition, and on higher average commodity prices compared to the first nine months of 2016.

On May 3, 2016, Kelt reduced borrowings under its revolving bank credit facility using the net proceeds of the offering of $90.0 million principal amount of convertible unsecured subordinated debentures (the "Debentures"). The Debentures mature on May 31, 2021 and bear interest at 5.0% per annum, payable semi-annually on May 31st and November 30th. Financing expense for the quarter ended September 30, 2017 includes $1.1 million of accrued cash interest and $0.9 million of non-cash accretion expense. The Debentures are convertible into common shares of the Company at a conversion price of $5.50 per share. As at September 30, 2017, the Debentures are "in-the-money" based on the closing price of Kelt common shares on the TSX of $7.13 on September 29, 2017, being the last trading day in the quarter.

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. Amounts drawn under the Credit Facility are primarily in the form of bankers' acceptances ("BAs"). Stamping fees on BAs fluctuate based on a pricing grid and range from 2.0% to 3.5%, depending upon the Company's quarter-end debt to cash flow ratio of between less than one and one tenth times to greater than three times. Kelt's average interest rate on bank debt outstanding was 3.4% during the first nine months of 2017, compared to 4.3% on average during the same period of 2016. The lower average rate is driven by the 150 basis point decrease in the applicable margin under the Credit Facility compared to the third quarter of 2016 as Kelt's debt to cash flow ratio improved significantly. The impact is partly offset by the 50 basis point increase in the prime rate in response to the Bank of Canada increasing its policy interest rate by the same amount during the third quarter of 2017.

Additional information regarding the Credit Facility and Debentures is provided under the heading of *"Capital Resources and Liquidity"*.

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)	**2017**	2016	%	**2017**	2016	%
Salaries and benefits	**2,090**	1,688	24	**6,180**	4,974	24
Other G&A expenses	**971**	877	11	**2,997**	2,823	6
Gross G&A expenses	**3,061**	2,565	19	**9,177**	7,797	18
Overhead recoveries	**(1,416)**	(820)	73	**(3,881)**	(2,585)	50
G&A expense, net of recoveries	**1,645**	1,745	-6	**5,296**	5,212	2
Gross G&A ($ per BOE)	**1.48**	1.36	9	**1.59**	1.33	20
Net G&A ($ per BOE)	**0.79**	0.92	-14	**0.92**	0.89	3

The Company incurred $5.3 million of G&A expenses during the first nine months of 2017, up 2% from $5.2 million during the same period of 2016. The increase in gross G&A expenses (before recoveries), which averaged $1.59 per BOE year-to-date during 2017, is primarily driven by the increase in total salaries and benefits as Kelt has hired new employees and consultants to support the Company's growth. Executive salaries continue to be below median levels in the industry. Net G&A expense averaged $0.92 per BOE for the nine month period ended September 30, 2017.

G&A expenses are reported net of overhead recoveries, however, Kelt does not capitalize any direct G&A expenses. Total overhead recoveries are higher in 2017 in conjunction with the significant increase in capital expenditures (before proceeds from dispositions) compared to 2016, which were notably higher during the third quarter of 2017, resulting in net G&A of $0.79 per BOE for the three month period ended September 30, 2017.

SHARE BASED COMPENSATION ("SBC")

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Stock options	**931**	1,319	-29	**2,687**	2,991	-10
Restricted share units ("RSUs")	**393**	482	-18	**1,186**	1,351	-12
Total SBC expense	**1,324**	1,801	-26	**3,873**	4,342	-11
$ per BOE	**0.64**	0.95	-33	**0.67**	0.74	-9

Share based compensation is expensed using graded amortization over the three year vesting period. The decrease in SBC expense during the three and nine month periods ended September 20, 3017 is primarily due to the decrease in the number of new stock options and RSUs granted compared to 2016. The impact is partly offset by an increase in the average fair value of new stock options and RSUs granted during the first nine months of 2017 driven by appreciation of Kelt's share price compared to 2016.

During the nine month period ended September 30, 2017, SBC expense averaged $0.67 per BOE, reflecting management's efforts to provide long term incentives to employees while minimizing the dilutive impact to shareholders. As at September 30, 2017, stock options and RSUs outstanding represent 6% of total shares outstanding (5% of total shares outstanding at December 31, 2016).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Expired mineral leases	**460**	571	-19	**987**	3,398	-71
$ per BOE	**0.22**	0.30	-27	**0.17**	0.58	-71

The Company expensed $0.5 million of costs related to the expiry of non-core land holdings during the quarter ended September 30, 2017. The majority of the mineral leases expired during 2016 were acquired through corporate acquisitions.

DEPLETION AND DEPRECIATION

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Depletion of D&P assets	**33,504**	35,109	-5	**90,800**	110,625	-18
Depreciation of corporate assets	**277**	208	33	**748**	604	24
Total depletion and depreciation	**33,781**	35,317	-4	**91,548**	111,229	-18
Depletion and depreciation ($/BOE)	**16.31**	18.69	-13	**15.86**	19.02	-17

The Company calculates depletion of development and production ("D&P") assets based on production relative to total proved reserves, for each depletion unit. Depletion expense of $90.8 million for the first nine months of 2017 is down by 18% or $19.8 million from the comparative period, of which, approximately $11.1 million is attributed to the Karr Property Disposition. The significant decrease of depletion expense per BOE reflects the Company's improving capital efficiencies. In particular, Kelt has added proved reserves at lower than historical finding and development capital costs.

GAIN ON SALE OF ASSETS

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Gain on sale of assets	**23**	2,701	-99	**1,586**	4,835	-67

On January 18, 2017, Kelt completed the Karr Property Disposition for proceeds of $103.1 million after estimated closing adjustments. Closing of the Karr Property Disposition had a minimal impact on the gain on sale of assets reported during the first nine months of 2017 because the assets and associated decommissioning obligations disposed were classified as held for sale at December 31, 2016. Kelt reported an impairment reversal of $32.2 million during the fourth quarter ended December 31, 2016, based on the increase in fair value of the Karr property evidenced by the cash purchase price.

On June 20, 2017, the Company disposed of certain non-core assets located near Grande Cache, Alberta, for net proceeds of $3.1 million and reported a gain of $1.6 million. Production associated with those assets was approximately 140 BOE per day.

Refer to additional information in respect of property dispositions under the heading of *"Capital Expenditures"*.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company may, from time to time, enter into fixed price contracts and derivative financial instruments with respect to commodity prices, currency exchange and interest rates in order to secure a certain amount of cash flow to protect a desired level of capital spending. Fair value accounting for derivative financial instruments may cause significant fluctuations in the reported amounts of derivative financial instrument assets and liabilities and the resultant magnitude of unrealized gains and losses.

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Realized gain (loss)	**41**	125	-67	**(330)**	89	-471
Unrealized gain (loss)	**(548)**	(241)	127	**(127)**	10	-1370
Gain (loss) on derivative financial instruments	**(507)**	(116)	337	**(457)**	99	-562
$ per BOE	**(0.24)**	(0.06)	300	**(0.08)**	0.02	-500

Interest rate risk management contracts

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. Based on average bank debt outstanding of $59.7 million during the first nine months of 2017, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) interest expense by $0.1 million. During the previous year ended December 31, 2016, Kelt had an interest rate swap fixing CDOR at 0.925% on a notional amount of $100 million until June 30, 2017. In January 2017, in conjunction with the Karr Property Disposition and resulting reduction in bank debt, the interest rate swap was unwound and terminated for proceeds of $10 thousand.

Commodity price risk management contracts

As at September 30, 2017, the following commodity price risk management contracts are outstanding:

Contract Type	Notional Volume	Reference Prices	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Financial Swap Natural Gas	10,000 MMBtu/d	SoCAL Border Avg. NYMEX Henry Hub	SoCAL Border Avg. plus US$0.055 per MMBtu	October 2017	**(117)**(1)
Financial Swap Propane	500 bbls/d	OPIS-Conway propane WTI Cushing Oklahoma	50% of US$WTI	October to December 2017	**(609)**2)

(1) The fair value is sensitive to changes in natural gas reference prices. If the Southern California Border Average ("SoCAL Border Avg.") - NYMEX basis differential increased (decreased) by $0.10/MMBtu, the fair market value of the contract would decrease (increase) by less than $0.1 million.

(2) The fair value is sensitive to changes in propane reference prices. If the OPIS-Conway propane price increased (decreased) by 5% relative to the fixed contract price, the fair market value of the contract would decrease (increase) by approximately $0.1 million.

Foreign exchange risk management contracts

As at September 30, 2017, there were no foreign exchange risk management contracts outstanding.

On July 11, 2016, the Company entered into a foreign exchange swaption contract and received a cash premium of $0.255 million. The swaption was exercised by the counterparty resulting in a derivative contract that fixed the exchange rate at CA$/US$1.33 on a notional US$1.0 million per month over the initial contract term of January to December 2017. On July 26, 2017, the Company unwound the foreign exchange swap for cash proceeds of $0.4 million, extinguishing the contract for the remaining five month term from August to December 2017. Kelt realized a cumulative net cash gain of $0.7 million under this contract, including the cash premium earned at inception.

In November 2016, Kelt received a cash premium of $0.205 million for entering into a forward foreign exchange swaption contract whereby the counterparty had the right, if exercised on March 31, 2017, to enter a series of forward foreign exchange transactions fixing the exchange rate on a notional US$1.0 million per month at CA$/US$ 1.3600 from April 2017 to March 2018. The swaption was not exercised on March 31, 2017 and Kelt has no further obligations under the contract.

INCOME TAXES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Deferred income tax recovery	**(4,122)**	(3,254)	27	**(6,062)**	(20,433)	-70
Loss before taxes	**(14,775)**	(18,553)	-20	**(23,851)**	(82,063)	-71
Effective tax recovery rate	**27.9%**	17.5%	59	**25.4%**	24.9%	2.1

The consolidated combined federal and provincial statutory tax rate averaged 26.8% and 26.7% during the three and nine months ended September 30, 2017, respectively, compared to 26.6% in each of the comparative periods of 2016. A detailed analysis of the provision for deferred income taxes is included in note 12 of the interim financial statements, which includes a reconciliation of the difference between the deferred income tax recovery reported relative to expected recovery based on the statutory tax rate. The lower effective rate of tax recovery during the comparative periods of 2016 is primarily due to qualifying expenditures incurred and renounced in respect of flow-through shares.

Kelt was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. The Company's consolidated tax pools are estimated to be approximately $973.2 million as of September 30, 2017, compared to $975.4 million at December 31, 2016. Proceeds from the Karr Property Disposition of $100.0 million (before closing adjustments) reduced Kelt's COGPE and UCC tax pools by $80 million and $20 million, respectively, however the Company's total tax pools are substantially unchanged as the impact of the property disposition was primarily offset by exploration and development capital expenditures during the first nine months of 2017.

(CA$ thousands, unless otherwise indicated)	Rate	**September 30 2017**	December 31 2016	% change
Canadian oil and gas property expenses (COGPE)	10%	**156,323**	248,468	-37
Canadian development expenses (CDE)	30%	**211,105**	154,830	36
Canadian exploration expenses (CEE)	100%	**100,511**	94,597	6
Undepreciated capital cost [(1)] (UCC)	25%	**179,593**	177,487	1
Share and debt issue costs (SIC/DIC)	5 years	**8,863**	13,795	-36
Non-capital losses [(2)] (NCL)	100%	**316,846**	286,219	11
Estimated tax deductions available, end of period		**973,241**	975,396	0

(1) The majority of the Company's undepreciated capital cost deductions relate to Class 41 assets, which are deductible at a rate of 25% per year.

(2) The Company's non-capital losses expire in years 2023 to 2036.

ADJUSTED FUNDS FROM OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30TH	2017		2016		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas revenue	**56,422**	**27.24**	47,760	25.27	18	8
Cash premiums on financial instruments	**-**	**-**	255	0.13	-100	-100
Realized gain (loss) on financial instruments (1)	**41**	**0.02**	134	0.07	-69	-71
Royalties	**(5,107)**	**(2.46)**	(4,815)	(2.55)	6	-4
Revenue, after royalties and financial instruments	**51,356**	**24.80**	43,334	22.92	19	8
Production expense	**(19,025)**	**(9.19)**	(15,937)	(8.43)	19	9
Transportation expense	**(5,691)**	**(2.75)**	(5,211)	(2.76)	9	0
Operating income (2)	**26,640**	**12.86**	22,186	11.73	20	10
Financing expense (3)	**(2,038)**	**(0.98)**	(2,774)	(1.47)	-27	-33
G&A expense	**(1,645)**	**(0.79)**	(1,745)	(0.92)	-6	-14
Realized gain (loss) on financial instruments (4)	**-**	**-**	(9)	-	-100	-
Adjusted funds from operations (5)	**22,957**	**11.09**	17,658	9.34	30	19
Basic ($ per common share) (6)	**0.13**		0.10		30	
Diluted ($ per common share) (6)	**0.13**		0.10		30	
Common shares outstanding (000s):						
Basic, weighted average	**176,013**		174,349		1	
Diluted, weighted average	**177,206**		174,671		1	

NINE MONTHS ENDED SEPTEMBER 30TH	2017		2016		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas revenue	**176,719**	**30.62**	128,876	22.04	37	39
Cash premiums on financial instruments	**-**	**-**	255	0.04	-100	-100
Realized gain (loss) on financial instruments (1)	**(340)**	**(0.06)**	113	0.02	-401	-400
Royalties	**(16,372)**	**(2.84)**	(10,708)	(1.83)	53	55
Revenue, after royalties and financial instruments	**160,007**	**27.72**	118,536	20.27	35	37
Production expense	**(55,816)**	**(9.67)**	(53,973)	(9.23)	3	5
Transportation expense	**(18,129)**	**(3.14)**	(16,266)	(2.78)	11	13
Operating income (2)	**86,062**	**14.91**	48,297	8.26	78	81
Financing expense (3)	**(5,663)**	**(0.98)**	(7,781)	(1.33)	-27	-26
G&A expense	**(5,296)**	**(0.92)**	(5,212)	(0.89)	2	3
Realized gain (loss) on financial instruments (4)	**10**	**-**	(24)	-	-142	-
Adjusted funds from operations (5)	**75,113**	**13.01**	35,280	6.04	113	115
Basic ($ per common share) (6)	**0.43**		0.20		115	
Diluted ($ per common share) (6)	**0.42**		0.20		110	
Common shares outstanding (000s):						
Basic, weighted average	**175,875**		172,338		2	
Diluted, weighted average	**177,204**		172,585		3	

(1) Includes realized gains (losses) on commodity price and foreign exchange derivatives. Excludes realized gains (losses) on interest rate swaps.

(2) "Operating income" is a non-GAAP financial measure which is calculated by deducting royalties, production expenses and transportation expenses from petroleum and natural gas revenue, after realized gains or losses on associated financial instruments.

(3) Excludes non-cash accretion of decommissioning obligations and convertible debentures.

(4) Includes realized gains (losses) on interest rate swaps.

(5) "Adjusted funds from operations" is a non-GAAP financial measure which is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs, provisions for potential credit losses, and settlement of decommissioning obligations.

(6) Adjusted 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.

During the three months ended September 30, 2017, adjusted funds from operations was $23.0 million ($0.13 per common share, diluted), up 30% from $17.7 million ($0.10 per common share, diluted) in the third quarter of 2016. Year-to-date in 2017, adjusted funds from operations is up 113% to $75.1 million ($0.42 per common share, diluted) compared to $35.3 million ($0.20 per common share, diluted) in the same nine month period of 2016.

The increase in adjusted funds from operations is primarily attributed to the increase in revenues driven by the recovery of commodity prices on average during 2017 compared to 2016. While the Company incurred higher transportation expenses during 2017, a portion of the increase related to oil and gas marketing arrangements and firm pipeline commitments contributed to the increase in Kelt's realized prices, partly mitigating the impact on operating netbacks. The Company's operating netback averaged $14.91 per BOE for the nine month period ended September 30, 2017, up 81% compared to $8.26 per BOE in the same period of 2016. The Company's low financing and G&A expenses result in the majority of operating income generated in the field contributing directly to Kelt's funds from operations.

The Company's operating netback was $12.86 per BOE during the third quarter of 2017, down from $15.49 per BOE in the second quarter of 2017. The decrease is primarily to due to weaker natural gas prices and the stronger Canadian dollar during the quarter ended September 30, 2017, which negatively impacted Kelt's average realized price; however, the impact on the Company's operating netback was partly offset by lower per unit production and transportation expenses during the third quarter of 2017.

LOSS AND COMPREHENSIVE LOSS

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Loss and comprehensive loss	**(10,653)**	(15,299)	-30	**(17,789)**	(61,630)	-71
Wtd avg. shares outstanding, basic (000s)	**176,013**	174,349	1	**175,875**	172,338	2
Wtd avg. shares outstanding, diluted (000s) (1)(2)	**176,013**	174,349	1	**175,875**	172,338	2
$ per common share, basic	**(0.06)**	(0.09)	-33	**(0.10)**	(0.36)	-72
$ per common share, diluted (1)(2)	**(0.06)**	(0.09)	-33	**(0.10)**	(0.36)	-72
$ per BOE	**(5.14)**	(8.10)	-37	**(3.08)**	(10.54)	-71

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for the three and nine months ended September 30, 2017 and 2016, the Company excluded the effect of stock options and RSUs as they were anti-dilutive. Therefore, the diluted weighted average is equal to the basic weighted average shares outstanding in each period.

(2) The common shares potentially issuable on conversion of the Debentures are excluded from the calculation of diluted weighted average shares outstanding as they were anti-dilutive to the loss reported for all periods outstanding.

Kelt reported a loss of $10.7 million ($0.06 per common share, diluted) for the third quarter of 2017, down 30% compared to the loss of $15.3 million ($0.09 per common share, diluted) in the third quarter of 2016. The decrease in loss is primarily due to the $4.5 million increase in operating income and $1.6 million decrease in depletion expense, partly offset by the corresponding reduction in the deferred income tax recovery.

Year-to-date in 2017, the loss reported of $17.8 million ($0.10 per common share, diluted) is 71% lower than the loss of $61.6 million ($0.36 per common share, diluted) in the corresponding period of 2016. Similarly, the decrease in loss was primarily driven by higher operating income and lower depletion, net of the change in deferred taxes.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

Kelt is committed to future growth through its strategy to implement a full-cycle exploration and development program. In previous years, the Company completed strategic acquisitions of oil and gas properties where it believes further exploitation, development and exploration opportunities exist. Kelt will continue to seek optimization of its asset base by building on its core properties and monetizing non-core assets.

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, unless otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Capital expenditures:						
Lease acquisition and retention	**3,994**	4,001	0	**7,396**	5,986	24
Geological and geophysical	**1,641**	1	-	**1,921**	161	1093
Drilling and completion of wells	**45,686**	7,541	506	**114,778**	21,871	425
Facilities, pipeline and well equipment	**24,530**	5,757	326	**53,607**	20,730	159
Corporate assets	**37**	441	-92	**769**	569	35
Capital expenditures, before A&D	**75,888**	17,741	328	**178,471**	49,317	262
Property acquisitions	**67**	(60)	-212	**67**	18,861	-100
Property dispositions	**(22)**	(5,065)	-100	**(106,339)**	(6,249)	1602
Total capital expenditures, net of dispositions	**75,933**	12,616	502	**72,199**	61,929	17

Drilling and completion expenditures incurred during the three month period ended September 30, 2017 were focused on Montney wells in the Company's core areas at La Glace and Wembley in Alberta and at Inga and Fireweed in British Columbia.

On July 31, 2017, the Company completed the purchase of a major infrastructure package for $12.5 million. The infrastructure package includes four 4,700 horse power gas compressors with aggregate capacity of 100 MMCF per day, two 50 MMCF per day gas dehydration units, a fuel gas conditioning skid, a high pressure flare system, four 750 barrel tanks, a vapor recovery unit, instrument air compressors, three electric power generators, a master control center building and several other buildings and associated equipment. After a new lease has been surveyed and built, this infrastructure package will be moved from its existing location in northeastern BC and installed on a new site at Inga, BC, in close proximity to the Company's existing Inga facility located at 15-03-088-23W6. The estimated cost of moving the equipment from the seller's location is included in the Company's capital commitments for 2018 (refer to *"Commitments and Contractual Obligations"*). This infrastructure purchase is expected to lower future production expenses regardless of whether the Company elects to construct its own gas plant at Inga, or alternatively, continues to process gas through third party facilities in BC.

Kelt has also commenced installation of blending facilities at its three main oil terminals located at Inga, La Glace and Progress, which are now pipeline connected to oil sales and water injection. These new facilities are expected to provide the Company with higher price realizations for its oil and butane sales in each of these areas. Completion of the blending facilities is anticipated prior to year-end at La Glace and Progress, and at Inga, completion is expected in 2018.

Minor Property Disposition

On June 20, 2017, Kelt completed a disposition of certain non-core assets located near Grande Cache, Alberta, for cash proceeds of $3.2 million before closing adjustments. The assets and associated decommissioning obligations disposed had a net carrying value of approximately $1.5 million resulting in a gain on sale of $1.6 million (after estimated closing adjustments). At the time of disposition, production from the assets was approximately 140 BOE per day (90% gas).

Karr Property Disposition

On January 18, 2017, Kelt completed the disposition of the majority of its oil and gas assets in the Karr area of Alberta (the "Karr Property Disposition"). The disposition had an effective date of January 1, 2017. Kelt received gross cash proceeds, prior to adjustments at closing and following the waiver of certain preferential rights, in the amount of $100.0 million. Net proceeds were used, initially, to reduce indebtedness under the Company's Credit Facility. The syndicate of lenders confirmed that the authorized borrowing amount available under the Credit Facility remained unchanged at $185.0 million.

The assets and associated decommissioning obligations disposed pursuant to the Karr Property Disposition were classified as held for sale as at December 31, 2016. Immediately prior to the initial classification as held for sale, the net carrying amount of PP&E was $68.9 million, including accumulated impairment of $46.2 million recognized during the year ended December 31, 2015. As at December 31, 2016, the impairment loss was partially reversed by $32.2 million based on the estimated fair value of consideration in excess of the carrying amount.

Estimates as of: *(CA$ thousands)*	**September 30 2017**	December 31 2016	Change in Estimates
Gross purchase price	100,000	100,000	-
Estimated closing adjustments [(1)]	3,092	2,926	166
Fair value of consideration [(1)]	**103,092**	**102,926**	**166**
Exploration and evaluation assets	4,377	4,377	-
Property, plant and equipment, net [(2)]	101,264	101,081	183
Assets held for sale and disposed	**105,641**	**105,458**	**183**
Decommissioning obligations held for sale and disposed[(3)]	(2,532)	(2,532)	-
Net assets held for sale and disposed	**103,109**	**102,926**	**183**

(1) At the time of preparation of the interim financial statements, closing adjustments are estimated to be approximately $3.1 million and include estimates for certain capital expenditures and operating income between the effective and closing date of the disposition. The total amount of adjustments will not be known until completion of the final statement of adjustments and as a result, the fair value of consideration may differ from this estimate.

(2) Cost of $163.3 million, net of accumulated depletion and depreciation of $48.1 million and accumulated impairment of $14.0 million (net of impairment reversal).

(3) The carrying amount of the decommissioning obligations held for sale was estimated based on a risk-free rate of 2.3% and an inflation rate of 2.0% as at December 31, 2016. The undiscounted cash flows required to settle the obligations were estimated to be approximately $2.7 million.

Key Attributes of the Karr Property Disposition:

- At December 31, 2016, as evaluated by Sproule, proved reserves were 7.7 million BOE ($71.3 million of FDC required to develop proved reserves) and proved plus probable reserves were 13.5 million BOE ($105.3 million of FDC required to develop proved plus probable reserves) of which 26% were oil, 21% were NGLs and 53% were gas;
- Average production for December 2016 was approximately 1,300 BOE per day (34% oil, 16% NGLs and 50% gas);
- Land holdings include 16,480 gross acres (25.7 sections) and 16,400 net acres (25.6 sections) of which 9,920 gross acres (15.5 sections) and 9,840 net acres (15.4 sections) included Montney rights. Approximately 79% of net land holdings were classified as undeveloped by Kelt; and
- Tangible equipment includes a 100% interest in the Kelt Karr 10-21-65-3W6 oil battery and a 2.26% interest in the CNRL Karr 10-10-65-2W6 gas plant.

Kelt retained certain non-operated interests at Karr with current production of approximately 120 BOE per day and a 1.0% interest in the CNRL Karr 10-10-65-2W6 gas plant. The Company may endeavour to divest of these minor interests in the future.

Property Acquisitions and Dispositions – Year ended December 31, 2016

On March 31, 2016, the Company disposed of certain non-core assets located at Boundary Lake in northwestern Alberta, for cash consideration of $1.2 million, after closing adjustments, and reported a gain of $2.0 million. The carrying amount of decommissioning obligations disposed was $2.4 million, which exceeded the $1.4 million combined carrying amount of the E&E and D&P assets. At the time of disposition, production from the assets was approximately 16 BOE per day.

On April 28, 2016, the Company closed an acquisition of oil and gas assets in its core area at Progress, Alberta, for cash consideration of $18.5 million, after closing adjustments. The acquisition included approximately 600 BOE per day of production (60% light oil), 4,135 net acres of land, and infrastructure that is an integral part of Kelt's existing

light oil play at Progress.

On September 21, 2016, Kelt completed a disposition of certain non-producing assets located at Karr, Alberta, for cash consideration of $5.0 million and recognized a gain of $2.6 million. The assets disposed primarily consisted of undeveloped land with a carrying amount of $2.5 million and decommissioning obligations of $0.1 million.

On October 7, 2016, Kelt completed the disposition of certain non-core assets located at Stoddart, BC, for proceeds of one dollar, before closing adjustments. Kelt discharged liabilities for future abandonment and site restoration of approximately $9.2 million ($9.6 million undiscounted) as a result of the disposition. At the time of the disposition, production from the assets was approximately 11 BOE per day as the majority of wells were inactive and did not have reserves assigned.

CAPITAL RESOURCES AND LIQUIDITY

Kelt's capital management objective is to maintain a flexible capital structure and sufficient liquidity to allow the Company to execute on its capital investment program and strategic growth plan. The Company strives to actively manage its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As at September 30, 2017, Kelt's capital structure was comprised of shareholders' capital, convertible debentures, bank debt and working capital.

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. Kelt's working capital deficiency increased at September 30, 2017 with higher capital spending during the third quarter. The Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at September 30, 2017, the Company's working capital deficit of $41.8 million combined with outstanding bank debt of $93.0 million, represented 73% of the authorized borrowing amount available under the Credit Facility of $185.0 million.

The Company monitors its capital structure and short-term financing requirements using a net bank debt to trailing adjusted funds from operations ratio, which is a non-GAAP financial measure. Kelt targets a net bank debt to trailing adjusted funds from operations ratio of less than 2.0 times.

	September 30, 2017	December 31, 2016
Bank debt	**92,973**	111,693
Working capital deficiency	**41,786**	26,349
Bank debt, net of working capital (1)	**134,759**	138,042
Trailing annualized adjusted funds from operations (2)(3)	**91,828**	92,400
Net bank debt to trailing adjusted funds from operations ratio (1)	**1.5**	1.5

(1) "Net bank debt" is equal to "Bank debt, net of working capital" determined in accordance with GAAP.

(2) Adjusted funds from operations is a non-GAAP financial measure which is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs, provisions for potential credit losses, and settlement of decommissioning obligations.

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

The Company's net bank debt to trailing adjusted funds from operations ratio of 1.5 times as at September 30, 2017, was unchanged from 1.5 times at December 31, 2016. The Karr Property Disposition was completed on January 18, 2017 for cash proceeds of $103.1 million. The proceeds were used initially to reduce bank indebtedness under the Credit Facility and have been used, along with $78.8 million of cash provided by operating activities, to fund exploration and development capital expenditures of $178.5 million during the first nine months of 2017.

Future capital expenditures are expected to be funded through a combination of cash flow from operations and bank debt, and may be supplemented by new equity or debt offerings. In October 2017, Kelt completed non-brokered private placements of flow-through common shares for gross proceeds of $20.6 million (refer to additional information under the heading of *"Subsequent Events"*).

CREDIT FACILITY

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. As at September 30, 2017, the authorized borrowing amount available under the Credit Facility was $185.0 million (unchanged from December 31, 2016). The Credit Facility is available for a revolving period of 364 days, maturing on April 28, 2018, and may be extended annually at Kelt's option and subject to lender approval, with a term-out to April 28, 2019 if not renewed. The Credit Facility is subject to semi-annual borrowing base reviews, with the next review scheduled to occur during November 2017. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted dispositions (to a maximum in each calendar year which are in the aggregate not more than 5% of the borrowing base then in effect), permitted risk management activities (as more particularly described in note 13 of the interim financial statements), permitted encumbrances and other standard business operating covenants. 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.

CONVERTIBLE DEBENTURES

On May 3, 2016, the Company issued $90.0 million principal amount of convertible unsecured subordinated debentures (the "Debentures") for net proceeds of $86.4 million. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th, commencing November 30, 2016. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price"), being a conversion rate of approximately 181.8182 common shares per $1,000 principal amount of Debentures, subject to adjustment in certain circumstances.

As at September 30, 2017, the Debentures are "in-the-money" based on the closing price of Kelt common shares on the TSX of $7.13 on September 29, 2017, being the last trading day in the quarter. To date, there have been no conversions and the $90.0 million principal amount is outstanding.

The Debentures are redeemable by the Company after May 31, 2019 and prior to May 31, 2020, in whole or in part, from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending five trading days (the "Current Market Price") prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after May 31, 2020 and prior to the Maturity Date, the Debentures may be redeemed by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

The Company may, at its option, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures upon redemption or due at maturity, by issuing common shares instead of cash (subject to the receipt of any required regulatory approvals and provided that no event of default has occurred). The number of common shares to be issued would be obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price on the date fixed for redemption or maturity, as applicable.

The Debentures trade on the TSX under the symbol "KEL.DB". As at September 30, 2017, the fair value of the Debentures was $136.8 million based on the closing market price of $152.00 per Debenture, being the price at which the Debentures last traded in the third quarter. The fair value was $130.5 million at December 31, 2016.

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, 2017 there were 176.0 million common shares issued and outstanding (as of November 8, 2017 there are 178.7 million common shares outstanding). There are no preferred shares issued or outstanding.

The Company's common shares trade on the TSX under the symbol "KEL". During the first nine months of 2017, 161.3 million common shares traded on the TSX at a weighted average price of $6.60 per common share, up from the volume weighted average trading price of $4.93 per common share during the year ended December 31, 2016.

As at September 30, 2017, officers, directors, and employees have been granted options to purchase 10.0 million common shares of the Company at an average exercise price of $6.50 per common share. In addition, there are 0.8 million RSUs outstanding. Options and RSUs outstanding at September 30, 2017 represented 6.1% of total common shares issued and outstanding. Additional information regarding the Company's stock options and RSUs is included in note 11 of the interim financial statements.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As of September 30, 2017, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2017	2018	2019	2020	2021	Thereafter
Operating lease - office buildings	348	577	624	1,162	1,197	1,642
Operating lease - vehicles	86	287	174	24	-	-
Capital commitments (1)	-	2,408	-	-	-	-
Firm processing commitments	1,780	4,030	-	-	-	-
Firm transportation commitments (2)	6,537	28,448	18,114	14,270	12,360	52,516
Total annual commitments	**8,751**	**35,750**	**18,912**	**15,456**	**13,557**	**54,158**

(1) Refer to additional information under the heading of *Capital Expenditures*.

(2) A portion of Kelt's commitments on the Alliance pipeline are denominated in US dollars. The volumes committed vary over the term of the contracts, which are effective until October 31, 2018, however, the maximum US denominated commitment in a given month does not exceed US$0.15 million. Amounts are translated to Canadian dollars at the spot rate on September 30, 2017 of CA$/US$1.2480.

Payments under the office building operating leases relate to the Company's head office in Calgary, Alberta, and field offices in Grande Prairie, Alberta and Fort St. John, British Columbia. The leases expire on April 30, 2023, February 28, 2020, and November 30, 2018, respectively, if not extended.

The Company has firm commitments for oil and gas transportation on major pipelines in Alberta and British Columbia. For periods subsequent to 2021, Kelt has an average annual commitment of $8.1 million for gas transportation until October 31, 2027 and an average annual commitment of $0.7 million for oil transportation until September 30, 2027.

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 nine months ended September 30, 2017, the Company incurred $0.2 million (2016 – $0.6 million) in legal fees and disbursements. The Company expects to continue using the services of this law firm from time to time.

SUBSEQUENT EVENTS

Flow-Through Equity Financings

In October 2017, the Company completed non-brokered private placements of 2.6 million common shares for aggregate gross proceeds of $20.6 million, of which: 2.0 million common shares were issued on a "flow-through" basis in respect of Canadian Development Expenses at a price of $7.75 per share for gross proceeds of $15.6 million (the "CDE Private Placement"); and 0.6 million common shares were issued on a "flow-through" basis in respect of Canadian Exploration Expenses at a price of $8.75 per share for gross proceeds of $5.0 million (the "CEE Private Placement"). After estimated expenses related to the private placements, net proceeds to Kelt were approximately $20.3 million.

Proceeds from the CDE Private Placement will be used to partially finance the Company's development drilling and completion expenditures during the remainder of 2017. Pursuant to the provisions in the *Income Tax Act* (Canada), Kelt will incur eligible Canadian Development Expenses prior to December 31, 2017, in the aggregate amount of not less than the total gross proceeds of the CDE Private Placement of $15.6 million.

Proceeds from the CEE Private Placement will be used to partially finance the Company's exploration drilling and completion expenditures in 2018. Pursuant to the “look-back” provisions in the *Income Tax Act* (Canada), Kelt will incur eligible Canadian Exploration Expenses prior to December 31, 2018, in the aggregate amount of not less than the total gross proceeds of the CEE Private Placement of $5.0 million. The qualifying expenditures to be incurred will be renounced to the subscribers of the flow-through common shares with an effective date of December 31, 2017.

Gas Marketing Update

The weakness in AECO and Station 2 natural gas prices and ongoing pipeline maintenance and egress issues in western Canada continue to impact the Company and industry, with gas prices becoming increasingly volatile toward the end of the third quarter. The Company has subscribed to TransCanada Corporation’s Dawn Long Term Fixed Price (LTFP) service and in addition, Kelt has entered into various natural gas marketing contracts in order to provide the Company with exposure to diversified gas price hubs and reduce exposure to a single market.

Effective November 1, 2017, Kelt’s gas market sales portfolio consists of the following firm contracts:

Market Term (Sales)	**Firm Volume (MMBtu/d)**	**Percent [(1)] @ Nov/1/17**	**Market Price**
Nov/1/17 – Oct/31/27	23,695	31%	**DAWN** USD Daily Index
Nov/1/17 – Oct/31/20	15,000	19%	**MALIN** USD NGI FOM Index less US$0.70/MMBtu
Nov/1/17 – Oct/31/20	11,990	15%	**SUMAS** USD Monthly Index less US$0.679/MMBtu
Nov/1/17 – Oct/31/18	3,000	4%	**SUMAS** USD Monthly Index less US$0.76/MMBtu
Nov/1/17 – Oct/31/18 [(2)]	12,330	16%	**CHICAGO** City Gate USD Gas Daily Index
Nov/1/17 – Oct/31/18	11,305	15%	**AECO** CAD Daily (5A) Index
TOTAL (effective Nov/1/17) [(1)]	**77,320**	**100%**	

(1) The percentage of total volumes is based on the Company’s firm contracts in place as of November 1, 2017. To the extent that Kelt’s actual gas production in future periods is greater than 77,320 MMBtu/d, being the total firm volume under contracts in place as of the date of this MD&A, the incremental gas production is expected to be sold primarily at the AECO or Chicago price hubs (see footnote 2).

(2) The Company also has access to priority interruptible transportation service (“PITS”) equating to 25% (2,580 MMBtu/d) of its firm service volume on the Alliance pipeline system under which Kelt can increase the amount of gas sales from its British Columbia properties into the Chicago market.

On October 6, 2017, Kelt elected to temporarily shut-in approximately 21.4 MMcf/d of dry gas production (3,770 BOE/d including associated NGLs) at its Grande Cache and West Pouce Coupe properties in Alberta. The Company elected to shut-in production at its dry gas properties due to the weakness in the AECO price primarily caused by transportation bottlenecks on the entire western Canadian pipeline transportation system. The production was brought back on-stream on November 1, 2017, as the Company’s non-AECO based contracts came into effect. In addition, the Company had approximately 4.8 MMcf/d of gas production (1,000 BOE/d including associated NGLs) behind pipe in British Columbia that it intends to bring back on-stream in January 2018 after adding booster compression.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended September 30, 2017 and 2016.

SUMMARY OF QUARTERLY RESULTS

The following tables summarize the Company's financial and operating results over the past eight quarters:

(CA$ thousands, except as otherwise indicated)	**Q3 2017**	Q2 2017	Q1 2017	Q4 2016
Revenue, before royalties and financial instruments	**56,422**	60,072	60,225	55,737
Adjusted funds from operations	**22,957**	25,333	26,823	23,100
Per share – basic ($/common share)	**0.13**	0.14	0.15	0.13
Per share – diluted ($/common share)	**0.13**	0.14	0.15	0.13
Profit (loss) and comprehensive income (loss)	**(10,653)**	(4,869)	(2,267)	11,856
Per share – basic ($/common share)	**(0.06)**	(0.03)	(0.01)	0.07
Per share – diluted ($/common share)	**(0.06)**	(0.03)	(0.01)	0.07
Total capital expenditures, net of dispositions	**75,933**	31,630	(35,364)	36,339
Total assets	**1,227,962**	1,203,174	1,193,644	1,255,958
Bank debt, net of working capital	**134,759**	80,618	75,765	138,042
Convertible debentures	**73,584**	72,685	71,810	70,978
Shareholders' equity	**830,344**	839,485	842,351	843,301
Average daily production (BOE/d)	**22,510**	20,684	20,204	19,762
Average realized price, after financial instruments ($/BOE)	**27.26**	31.70	33.13	30.53
Operating netback ($/BOE)	**12.86**	15.49	16.63	15.08
Operating netback as a percentage of revenue	**47%**	49%	50%	49%

	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Revenue, before royalties and financial instruments	47,760	40,718	40,398	42,797
Adjusted funds from operations	17,658	11,671	5,951	11,172
Per share – basic ($/common share)	0.10	0.07	0.04	0.07
Per share – diluted ($/common share)	0.10	0.07	0.04	0.07
Profit (loss) and comprehensive income (loss)	(15,299)	(20,413)	(25,918)	(92,987)
Per share – basic ($/common share)	(0.09)	(0.12)	(0.15)	(0.55)
Per share – diluted ($/common share))	(0.09)	(0.12)	(0.15)	(0.55)
Total capital expenditures, net of dispositions	12,616	25,908	23,405	42,487
Total assets	1,232,147	1,260,245	1,268,268	1,279,475
Bank debt, net of working capital	132,471	139,080	230,290	212,959
Convertible debentures	70,134	69,320	-	-
Shareholders' equity	823,887	835,241	822,229	846,754
Average daily production (BOE/d)	20,542	20,208	23,295	20,086
Average realized price, after financial instruments ($/BOE)	25.47	22.13	19.06	22.01
Operating netback ($/BOE)	11.73	8.72	4.76	8.05
Operating netback as a percentage of revenue	46%	39%	25%	37%

Since commencing active operations on February 26, 2013 with initial production of approximately 3,500 BOE per day, Kelt achieved corporate record average production of 23,295 BOE per day during the first quarter of 2016. Average production was lower in subsequent quarters of 2016 due to normal declines in conjunction with much lower capital expenditures compared to 2015, as well as significant production downtime resulting from third-party pipeline restrictions, constrained pipeline capacity, and plant/facility outages. With the recovery of commodity prices, Kelt expanded its capital expenditure program during 2017 and the Company's corporate average production increased to 22,510 BOE during the third quarter of 2017.

In the second half of 2014, global crude oil prices began a precipitous decline that subsequently resulted in massive cutbacks in capital spending on energy projects worldwide. After averaging US$93.00 per barrel in 2014, WTI oil prices averaged US$48.80 per barrel in 2015 and bottomed with a low average price of US$33.45 per barrel during the first quarter of 2016. In November 2016, OPEC and certain non-OPEC countries agreed to cut oil production supplies, resulting in a recovery of oil prices. The impact is seen starting in the fourth quarter of 2016 and in the first quarter of 2017, the Company reported its highest average realized price and operating netback in the past eight consecutive quarters. Adjusted funds from operations of $26.8 million ($0.15 per common share, diluted) for the quarter ended March 31, 2017 was also at its highest level over this period.

In addition to cash provided by operating activities, the Company's capital expenditures (net of proceeds from dispositions) were funded primarily through equity financings, supplemented by bank debt and the issuance of $90 million principal amount of 5% convertible debentures on May 3, 2016.

Refer to the *"Results of Operations"* section of this MD&A for further discussion. Additional information relating to Kelt, including the Company's MD&A for previous quarters, is filed on SEDAR and can be viewed at www.sedar.com.

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

This MD&A contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. In addition, this MD&A contains other key performance indicators ("KPI"), financial and non-financial, that do not have standardized meanings under the applicable securities legislation. As these non-GAAP financial measures and KPI 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.

Non-GAAP financial measures

"Operating income" is calculated by deducting royalties, production expenses and transportation expenses from petroleum and natural gas revenue, after realized gains or losses on associated financial instruments. The Company refers to operating income expressed per unit of production as an "Operating netback". "Adjusted funds from operations" is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs associated with acquisitions and dispositions, provisions for potential credit losses, and settlement of decommissioning obligations. Adjusted 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. Adjusted funds from operations and operating income or netbacks are used by Kelt as key measures of performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, profit or other measures of financial performance calculated in accordance with GAAP.

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2017**	2016	%	**2017**	2016	%
Cash provided by operating activities	**24,394**	15,152	61	**78,764**	22,801	245
Change in non-cash working capital	**(1,638)**	2,261	-172	**(4,679)**	11,770	-140
Funds from operations	**22,756**	17,413	31	**74,085**	34,571	114
Transaction costs	**-**	-	-	**-**	19	-100
Provision for potential credit losses	**-**	-	-	**-**	228	-100
Settlement of decommissioning obligations	**201**	245	-18	**1,028**	462	123
Adjusted funds from operations	**22,957**	17,658	30	**75,113**	35,280	113

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)	**2017**	2016	%	**2017**	2016	%
Petroleum and natural gas revenue	**56,422**	47,760	18	**176,719**	128,876	37
Cash premiums on financial instruments	**-**	255	-100	**-**	255	-100
Realized gain (loss) on financial instruments [1]	**41**	134	-69	**(340)**	113	-401
Royalties	**(5,107)**	(4,815)	6	**(16,372)**	(10,708)	53
Production expenses	**(19,025)**	(15,937)	19	**(55,816)**	(53,973)	3
Transportation expenses	**(5,691)**	(5,211)	9	**(18,129)**	(16,266)	11
Operating income	**26,640**	22,186	20	**86,062**	48,297	78
Production (mBOE)	**2,071**	1,890	10	**5,772**	5,849	-1
Operating netback ($/BOE)	**12.86**	11.73	10	**14.91**	8.26	81

(1) Excludes realized gains/losses on interest rate swaps

Throughout this MD&A, the term “net bank debt” is used synonymously with, and is equal to, “bank debt, net of working capital”. “Net bank debt” is calculated by adding the working capital deficiency to bank debt. The working capital deficiency is equal to total current assets net of total current liabilities. The Company uses a “net bank debt to trailing adjusted funds from operations ratio” as a benchmark on which management monitors the Company’s capital structure and short-term financing requirements. Management believes that this ratio, which is a non-GAAP financial measure, provides investors with information to understand the Company’s liquidity risk. The “net bank debt to trailing adjusted funds from operations ratio” is also indicative of the “debt to cash flow” calculation used to determine the applicable margin for a quarter under the Company’s Credit Facility agreement (though the calculation may not always be a precise match, it is representative).

Other KPI

“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. This MD&A contains various references to the abbreviation BOE which means barrels of oil equivalent. Where amounts are expressed on a 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 and is significantly different than the value ratio based on the current price of crude oil and natural gas. This conversion factor is an industry accepted norm and is not based on either energy content or current prices. Such abbreviation may be misleading, particularly if used in isolation. References to “oil” in this MD&A include crude oil and field condensate. References to “natural gas liquids” or “NGLs” include pentane, butane, propane, and ethane. References to “liquids” include field condensate and NGLs. References to “gas” in this discussion include natural gas and sulphur.

CHANGES IN ACCOUNTING POLICIES

As of January 1, 2017, the Company adopted all of the requirements of IFRS 9 *Financial Instruments*, as amended in July 2014 (“IFRS 9”).

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, and IFRS 9 has

introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company, however there are additional required disclosures which have been included in note 13 to the interim financial statements as at September 30, 2017.

The early adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of Kelt's financial instruments on the transition date.

UPDATE ON ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB has issued accounting standards that are not yet effective, including: IFRS 15 *Revenue from Contracts with Customers* (effective January 1, 2018) and IFRS 16 *Leases* (effective January 1, 2019). Details of the foregoing are outlined in note 3 of the December 31, 2016 consolidated annual financial statements. There have been no significant changes as of the date of these condensed interim financial statements and the evaluation of all potential measurement and disclosure impacts is ongoing.

IFRS 15 *Revenue from Contracts with Customers* will be adopted by the Company effective January 1, 2018, and will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides clarification on how and when an entity will recognize revenue and provides a single, principles-based, five-step model that will be applied to all contracts with customers. The Company has performed an initial assessment of IFRS 15 and plans to adopt the standard under the modified retrospective approach. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard (if any) would be recognized at the date of adoption. The Company will be required to disclose additional information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including a disaggregation of revenue by good or service. The Company's initial assessment is made as of the date of this MD&A and may change as new publications or interpretations of the new standard become available.

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. The significant judgments, estimates and assumptions made by management in the interim financial statements are outlined in note 2 of the December 31, 2016 annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended September 30, 2017 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2016.

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 annual and 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, 2017 to September 30, 2017 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.

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 business risks, as well as economic and industry factors affecting the Company is included in Kelt's annual MD&A for the year ended December 31, 2016, dated March 7, 2017. Additional information is included in Kelt's Annual Information Form dated March 10, 2017 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. 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.

CURRENT ECONOMIC ENVIRONMENT

The current economic environment in the energy industry remains volatile, however, positive indicators have started to appear:

- U.S. crude oil exports increased substantially in October 2017 and U.S. crude oil inventories continue to decline;
- The Brent-WTI crude oil price differential in October 2017 has widened, potentially implying that global crude oil supply/demand has tightened;
- U.S. natural gas exports (to Mexico and LNG) continue to grow; and
- U.S. natural gas storage at the end of the winter withdrawal season in 2016 has gone from a 1.0 tcf surplus compared to the previous year to current gas storage that is below the comparative period of the previous year.

Natural gas infrastructure and capacity constraints have continued to impact realized natural gas prices in domestic western Canadian markets relative to other North American markets. Kelt has taken measures to diversify its gas sales markets in order to mitigate the effect of low prices in Alberta and British Columbia.

In the current business environment, Kelt continues to focus on maintaining a strong balance sheet, giving the Company the ability to take advantage of opportunities as they arise. The Company's capital expenditure program is also flexible, with the ability to defer expenditures into the future if the current economic environment deteriorates rapidly. Kelt continues to be optimistic about the long-term outlook for oil and gas commodity prices.

OUTLOOK AND GUIDANCE

During the period of low oil and gas prices experienced by the energy industry, Kelt was well positioned to take advantage of opportunities to add value at a reasonable cost. The cost to acquire land at Crown sales in the Company's core operating areas had dropped significantly and service related costs to drill and complete wells had also declined substantially. Kelt has transitioned to development pad drilling in order to take advantage of lower oilfield related service costs and will continue to test newly acquired exploration lands.

2017 OUTLOOK

WTI crude oil prices are forecasted to average US$50.00 per barrel in 2017 (no change from previous forecast), up 15% from the average price of US$43.32 per barrel in 2016. AECO natural gas prices are forecasted to average $2.15 per GJ in 2017 (down 14% from the previous forecast of $2.50 per GJ), up 5% from the average price of $2.05 per GJ in 2016.

In October 2017, Kelt completed non-brokered private placements by issuing shares on a flow-through basis in respect of CEE and CDE resulting in gross proceeds of $20.6 million (refer to additional information under the heading of *"Subsequent Events"*).

The Company's Board of Directors has increased Kelt's 2017 capital expenditures budget to $226.0 million ($115.0 million net after dispositions), up 12% from its previous budget of $202.0 million ($91.0 million net after dispositions).

Forecasted average production of 21,800 BOE per day in 2017 (previous forecast was 22,500 BOE per day) represents a 4% increase from average production of 20,947 BOE per day in 2016 and is estimated to be weighted 42% to oil/NGLs and 58% to gas. The reduction in forecasted 2017 production reflects the previously announced shut-in of approximately 4,770 BOE (92% gas) per day in both Alberta and British Columbia due to low domestic gas prices. The majority of this production was brought back on-stream in early November to coincide with the start of Kelt's new gas contracts outside of the AECO and Station 2 Gas Hubs.

After giving effect to the aforementioned production estimates, commodity price assumptions and estimated expenses, funds from operations for 2017 is forecasted to be approximately $110.0 million (previous forecast was $124.0 million) or $0.62 (previous forecast was $0.70) per common share, diluted. Kelt estimates that the Company's bank debt, net of working capital, will be approximately $120.0 million as at December 31, 2017 (previous forecast was $104.0 million). Bank debt, net of working capital at December 31, 2017 is estimated to be 1.1 times forecasted 2017 funds from operations. Royalties are expected to average 9.9% of revenue in 2017 (previous forecast was 10.2%). On average during 2017, combined production and transportation expense is estimated to be $12.74 per BOE (previous forecast was $12.61 per BOE), G&A expense is estimated to be $0.88 per BOE (previous forecast was $0.97 per BOE) and interest expense is forecasted at $0.98 per BOE (previous forecast was $0.93 per BOE).

2018 GUIDANCE

WTI crude oil prices are forecasted to average US$52.00 per barrel in 2018, up 4% from the estimated average price of US$50.00 per barrel in 2017. AECO natural gas prices are forecasted to average $2.15 per GJ in 2017, unchanged from the estimated average price in 2017. Kelt is expected to realize a premium (prior to adjusting for heat content) of approximately 30% to the average forecasted AECO price in 2018 as a result of its diversified gas market contracts.

The Company's Board of Directors has approved an initial capital expenditure budget of $210.0 million for 2018. Kelt expects to drill 21 gross (19.5 net) wells in 2018, however the Company expects to complete 29 gross (27.5 net) wells in 2018 as there are expected to be 8 gross (8.0 net) drilled but un-completed ("DUC") wells from 2017.

Forecasted average production in 2018 is estimated to be from 28,500 BOE per day to 29,500 BOE per day, representing a 31% to 35% increase from forecasted average production of 21,800 BOE per day in 2017. It is

estimated that this 2018 forecasted average production will be weighted 47% to oil/NGLs and 53% to gas. However, based on the Company's forecasted commodity prices for 2018, 83% of forecasted operating income in 2018 is expected to be generated from oil and NGLs versus 17% from gas.

After giving effect to the aforementioned production estimates, commodity price assumptions and estimated expenses, funds from operations for 2018 is forecasted to be approximately $175.0 million or $0.97 per common share, diluted. Kelt estimates that the Company's bank debt, net of working capital, will be approximately $155.0 million as at December 31, 2018 (0.9 times forecasted 2018 funds from operations). Royalties are expected to average 10.5% of revenue in 2018. On average during 2018, combined production and transportation expense is estimated to be $12.91 per BOE ($9.49 per BOE and $3.42 per BOE respectively), G&A expense is estimated to be $0.76 per BOE and interest expense is forecasted at $0.85 per BOE.

The table below outlines the Company's forecasted financial and operating results for 2017 and new guidance for 2018:

(CA$ millions, except as otherwise indicated)	**2018 Budget**	2017 Forecast	Change
Average Production			
Oil (bbls/d)	**10,600 - 11,000**	6,830	55% - 61%
NGLs (bbls/d)	**2,800 - 2,900**	2,370	18% - 22%
Gas (mmcf/d)	**90.6 - 93.6**	75.6	20% - 24%
Combined (BOE/d)	**28,500 - 29,500**	21,800	31% - 35%
Production per million common shares (BOE/d)	**159 - 165**	124	28% - 33%
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**52.00**	50.00	4%
Canadian Light Sweet ($/bbl)	**61.52**	60.81	1%
NYMEX natural gas price (US$/MMBTU)	**3.15**	3.15	0%
AECO natural gas price ($/GJ)	**2.15**	2.15	0%
Average Exchange Rate (US$/CA$)	**0.794**	0.774	3%
Capital Expenditures			
Drilling & completions	**135.0**	144.0	- 6%
Facilities, pipeline & well equipment	**65.0**	67.0	- 3%
Land, seismic & property acquisitions	**10.0**	15.0	- 33%
Property dispositions	**-**	(111.0)	- 100%
Net Capital Expenditures	**210.0**	115.0	83%
Funds from operations	**175.0**	110.0	59%
Per common share, diluted	**0.97**	0.62	56%
Bank debt, net of working capital, at year-end (1)	**155.0**	120.0	29%
Net bank debt to trailing annual funds from operations ratio	**0.9 x**	1.1 x	- 18%
Weighted average common shares outstanding (millions)	**179.0**	176.5	1%
Common shares issued and outstanding (millions)	**179.1**	178.9	0%

(1) In addition to bank debt, the Company has $90.0 million principal amount of convertible debentures outstanding with a coupon of 5% per annum, maturing May 31, 2021.

Kelt is currently unhedged in 2018. As a result, a 10% change in the Company's forecasted average oil/NGLs price for 2018 would change forecasted funds from operations by approximately $21.0 million. A 10% change in the Company's average gas price forecasted for 2018 would impact funds from operations by approximately $11.0 million.

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 advisories regarding forward-looking statements and to the cautionary statement below.

The information set out herein 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 the balance of 2017 and for the calendar year 2018. 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 10, 2017 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 and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to Kelt 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 8, 2017

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
[UNAUDITED]

(CA$ thousands)	[Notes]	**September 30, 2017**	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents		**1,260**	560
Accounts receivable and accrued revenue	[13]	**24,957**	30,406
Prepaid expenses and deposits		**2,358**	1,191
Total current assets		**28,575**	32,157
Assets held for sale	[5]	**-**	105,458
Exploration and evaluation assets	[6]	**123,706**	120,166
Property, plant and equipment	[7]	**1,075,681**	998,177
Total assets		**1,227,962**	1,255,958
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**67,952**	55,659
Derivative financial instruments	[13]	**726**	599
Deferred premium on flow-through shares	[11]	**-**	798
Decommissioning obligations	[10]	**1,683**	1,450
Total current liabilities		**70,361**	58,506
Decommissioning obligations held for sale	[5]	**-**	2,532
Bank debt	[8]	**92,973**	111,693
Convertible debentures	[9]	**73,584**	70,978
Decommissioning obligations	[10]	**124,411**	126,597
Deferred income tax liability	[12]	**36,289**	42,351
Total liabilities		**397,618**	412,657
SHAREHOLDERS' EQUITY			
Shareholders' capital	[11]	**1,058,943**	1,055,959
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[9]	**12,856**	12,856
Contributed surplus		**19,302**	17,454
Retained earnings (deficit)		**(203,089)**	(185,300)
Total shareholders' equity		**830,344**	843,301
Total liabilities and shareholders' equity		**1,227,962**	1,255,958
Commitments	[15]		
Subsequent events	[18]		

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands, except per share amounts)	[Notes]	**2017**	2016	**2017**	2016
Revenue					
Petroleum and natural gas revenue		**56,422**	47,760	**176,719**	128,876
Royalties		**(5,107)**	(4,815)	**(16,372)**	(10,708)
		51,315	42,945	**160,347**	118,168
Expenses					
Production		**19,025**	15,937	**55,816**	53,973
Transportation		**5,691**	5,211	**18,129**	16,266
Financing	[14]	**3,680**	4,347	**10,476**	11,344
General and administrative		**1,645**	1,745	**5,296**	5,212
Provision for potential credit losses		**-**	-	**-**	228
Share based compensation	[11]	**1,324**	1,801	**3,873**	4,342
Exploration and evaluation	[6]	**460**	571	**987**	3,398
Depletion and depreciation	[7]	**33,781**	35,317	**91,548**	111,229
		65,606	64,929	**186,125**	205,992
Loss before other items and taxes		**(14,291)**	(21,984)	**(25,778)**	(87,824)
Gain (loss) on derivative financial instruments	[13]	**(507)**	(116)	**(457)**	99
Premium on flow-through shares	[11]	**-**	846	**798**	846
Gain on sale of assets	[5]	**23**	2,701	**1,586**	4,835
Transaction costs		**-**	-	**-**	(19)
Loss before taxes		**(14,775)**	(18,553)	**(23,851)**	(82,063)
Deferred income tax recovery	[12]	**(4,122)**	(3,254)	**(6,062)**	(20,433)
Loss and comprehensive loss		**(10,653)**	(15,299)	**(17,789)**	(61,630)
Loss per common share					
Basic	[11]	**(0.06)**	(0.09)	**(0.10)**	(0.36)
Diluted	[11]	**(0.06)**	(0.09)	**(0.10)**	(0.36)

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

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

(CA$ thousands)	[Notes]	Shareholders' capital Number of Shares (000s)	Shareholders' capital Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2016		175,672	1,055,959	(57,668)	12,856	17,454	(185,300)	843,301
Loss and comprehensive loss		-	-	-	-	-	(17,789)	(17,789)
Exercise of stock options	[11]	195	1,272	-	-	(313)	-	959
Vesting of restricted share units	[11]	181	1,712	-	-	(1,712)	-	-
Share based compensation	[11]	-	-	-	-	3,873	-	3,873
Balance at September 30, 2017		**176,048**	**1,058,943**	**(57,668)**	**12,856**	**19,302**	**(203,089)**	**830,344**

(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2015		168,668	1,022,115	(57,668)	-	17,833	(135,526)	846,754
Loss and comprehensive loss		-	-	-	-	-	(46,331)	(46,331)
Common shares issued, net of costs:								
Private placements	[11]	4,700	22,090	-	-	-	-	22,090
Premium on flow-through shares	[11]	-	(2,585)	-	-	-	-	(2,585)
Share issue costs, net of tax	[11]	-	(83)	-	-	-	-	(83)
Issuance of convertible debentures	[9]	-	-	-	12,856	-	-	12,856
Vesting of restricted share units	[11]	782	5,479	-	-	(5,479)	-	-
Share based compensation	[11]	-	-	-	-	2,541	-	2,541
Balance at September 30, 2016		174,150	1,047,016	(57,668)	12,856	14,895	(181,858)	835,241

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

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
[UNAUDITED]

(CA$ thousands)	[Notes]	Three months ended September 30 **2017**	Three months ended September 30 2016	Nine months ended September 30 **2017**	Nine months ended September 30 2016
Operating activities					
Loss and comprehensive loss		**(10,653)**	(15,299)	**(17,789)**	(61,630)
Items not affecting cash:					
Accretion of convertible debentures	[9,14]	**899**	814	**2,606**	1,301
Accretion of decommissioning obligations	[10,14]	**743**	759	**2,207**	2,262
Share based compensation		**1,324**	1,801	**3,873**	4,342
Exploration and evaluation		**460**	571	**987**	3,398
Depletion and depreciation		**33,781**	35,317	**91,548**	111,229
Unrealized gain on derivative financial instruments	[13]	**548**	241	**127**	(10)
Premium on flow-through shares		**-**	(846)	**(798)**	(846)
Gain on sale of assets		**(23)**	(2,701)	**(1,586)**	(4,835)
Deferred income tax recovery		**(4,122)**	(3,254)	**(6,062)**	(20,433)
Cash premiums on derivatives		**-**	255	**-**	255
Settlement of decommissioning obligations	[10]	**(201)**	(245)	**(1,028)**	(462)
Change in non-cash operating working capital	[16]	**1,638**	(2,261)	**4,679**	(11,770)
Cash provided by operating activities		**24,394**	15,152	**78,764**	22,801
Financing activities					
Increase (decrease) in bank debt		**28,398**	(4,969)	**(18,720)**	(55,546)
Issue of common shares, net of costs	[11]	**-**	2,489	**-**	24,465
Proceeds on exercise of stock options	[11]	**188**	289	**959**	289
Issue of convertible debentures, net of costs	[9]	**-**	(1)	**-**	86,443
Cash provided by (used in) financing activities		**28,586**	(2,192)	**(17,761)**	55,651
Investing activities					
Exploration and evaluation assets		**(12,996)**	(7,254)	**(39,243)**	(21,760)
Property, plant and equipment		**(62,892)**	(10,487)	**(139,228)**	(27,557)
Property acquisitions	[4]	**(67)**	60	**(67)**	(18,861)
Property dispositions	[5]	**22**	5,065	**106,339**	6,249
Change in non-cash investing working capital	[16]	**23,614**	(299)	**11,896**	(17,046)
Cash used in investing activities		**(52,319)**	(12,915)	**(60,303)**	(78,975)
Net change in cash and cash equivalents		**661**	45	**700**	(523)
Cash and cash equivalents, beginning of period		**599**	302	**560**	870
Cash and cash equivalents, end of period		**1,260**	347	**1,260**	347

The accompanying notes form an integral part of these consolidated 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") 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 northwestern Alberta and northeastern British Columbia. The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 and was inactive until February 26, 2013. Kelt's land holdings are located in two core areas, namely: (a) Grande Prairie, Alberta (including Pouce Coupe, Progress and La Glace), held directly by Kelt; and (b) Fort St. John, British Columbia (including Inga, Fireweed and Stoddart), held by the Company's wholly-owned subsidiary, Kelt Exploration (LNG) Ltd. ("Kelt LNG"). The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively.

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

2. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements for issue on November 8, 2017.

a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook - Accounting*. These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2016.

b) Basis of measurement

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

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

c) Significant judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2016 consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended September 30, 2017 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2016 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements at September 30, 2017 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2016.

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

Changes in Accounting Policies

As of January 1, 2017, the Company adopted all of the requirements of IFRS 9 *Financial Instruments*, as amended in July 2014 ("IFRS 9").

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, and IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the financial statements of the Company, however there are additional required disclosures which have been included in note 13.

The early adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of Kelt's financial instruments on the transition date.

Update on Accounting Standards Issued but not yet Effective

The IASB has issued accounting standards that are not yet effective, including: IFRS 15 *Revenue from Contracts with Customers* (effective January 1, 2018) and IFRS 16 *Leases* (effective January 1, 2019). Details of the foregoing are outlined in note 3 of the December 31, 2016 consolidated annual financial statements. There have been no significant changes as of the date of these condensed interim financial statements and the evaluation of all potential measurement and disclosure impacts is ongoing.

IFRS 15 *Revenue from Contracts with Customers* will be adopted by the Company effective January 1, 2018, and will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. IFRS 15 provides clarification on how and when an entity will recognize revenue and provides a single, principles-based, five-step model that will be applied to all contracts with customers. The Company has performed an initial assessment of IFRS 15 and plans to adopt the standard under the modified retrospective approach. Under this method, comparative figures are not restated and the cumulative effect of initially applying the standard (if any) would be recognized at the date of adoption. The Company will be required to disclose additional information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including a disaggregation of revenue by good or service. The Company's initial assessment is made as of the date of these interim financial statements and may change as new publications or interpretations of the new standard become available.

4. PROPERTY ACQUISITIONS

The following table summarizes the fair value of net assets acquired pursuant to property acquisitions during the nine months ended September 30, 2017 and the prior year ended December 31, 2016:

	September 30, 2017	December 31, 2016
Exploration and evaluation assets	**65**	252
Property, plant and equipment	**2**	18,538
Decommissioning obligations	**-**	(278)
Fair value of net assets acquired	**67**	18,512
Cash consideration, after closing adjustments	**67**	18,512

On April 28, 2016, the Company acquired oil and gas assets in its core area at Progress, Alberta, for cash consideration of $18.5 million after closing adjustments. The transaction was accounted for as a business combination whereby the net assets acquired and the liabilities assumed were recorded at fair value on the acquisition date.

5. PROPERTY DISPOSITIONS

The table below summarizes the aggregate proceeds received and carrying values of the assets and associated decommissioning obligations disposed during the nine months ended September 30, 2017, and prior year ended December 31, 2016, as well as the resulting net gain on sale in each period:

	September 30, 2017	December 31, 2016
Exploration and evaluation assets	**4,565**	2,575
Property, plant and equipment	**102,985**	6,257
Decommissioning obligations	**(2,797)**	(11,687)
Carrying value of net assets (liabilities) disposed	**104,753**	(2,855)
Cash proceeds, after closing adjustments (1)	**106,339**	5,891
Gain on sale of assets (1)	**1,586**	8,746

(1) The amounts reported in the table above were estimated based on information available at the time of preparation of these interim financial statements. In particular, closing adjustments were estimated based on interim statements of adjustments. The net gain or loss ultimately recognized by the Company upon determination of final closing adjustments may differ from these estimates.

Minor Property Disposition

On June 20, 2017, Kelt completed a disposition of certain non-core assets located near Grande Cache, Alberta, for cash proceeds of $3.2 million before closing adjustments. The assets and associated decommissioning obligations disposed had a net carrying value of approximately $1.5 million resulting in a gain on sale of $1.6 million (after estimated closing adjustments).

Karr Property Disposition

On January 18, 2017, Kelt completed the disposition of the majority of its oil and gas assets located in the Karr area of Alberta, for cash consideration of $100.0 million before adjustments. The disposition (hereinafter referenced as the "Karr Property Disposition") had an effective date of January 1, 2017. Net proceeds were used, initially, to reduce indebtedness under the Company's Credit Facility.

The assets and associated decommissioning obligations disposed pursuant to the Karr Property Disposition were classified as held for sale as at December 31, 2016. Immediately prior to the initial classification as held for sale, the net carrying amount of PP&E was $68.9 million, including accumulated impairment of $46.2 million recognized during the year ended December 31, 2015. As at December 31, 2016, the impairment loss was partially reversed by $32.2 million based on the estimated fair value of consideration in excess of the carrying amount.

Estimates as of: *(CA$ thousands)*	**September 30, 2017**	December 31, 2016	Change in Estimates
Gross purchase price	100,000	100,000	-
Estimated closing adjustments [1]	3,092	2,926	166
Fair value of consideration [1]	**103,092**	**102,926**	**166**
Exploration and evaluation assets	4,377	4,377	-
Property, plant and equipment, net [2]	101,264	101,081	183
Assets held for sale and disposed	105,641	105,458	183
Decommissioning obligations held for sale and disposed [3]	(2,532)	(2,532)	-
Net assets held for sale and disposed	**103,109**	**102,926**	**183**

(1) At the time of preparation of the interim financial statements, closing adjustments are estimated to be approximately $3.1 million and include estimates for certain capital expenditures and operating income between the effective and closing date of the disposition. The total amount of adjustments will not be known until completion of the final statement of adjustments and as a result, the fair value of consideration may differ from this estimate.

(2) Cost of $163.3 million, net of accumulated depletion and depreciation of $48.1 million and accumulated impairment of $14.0 million (net of impairment reversal).

(3) The carrying amount of the decommissioning obligations held for sale was estimated based on a risk-free rate of 2.3% and an inflation rate of 2.0% as at December 31, 2016. The undiscounted cash flows required to settle the obligations were estimated to be approximately $2.7 million.

6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation (“E&E”) 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 either transferred to property, plant, and equipment (“PP&E”) or charged to exploration and evaluation expense.

The following table reconciles movements of exploration and evaluation assets:

	September 30, 2017	December 31, 2016
Balance, beginning of period	**120,166**	124,305
Additions	**39,243**	35,575
Property acquisitions [note 4]	**65**	252
Reclassification (to) from held for sale [note 5]	**4,377**	(4,377)
Property dispositions [note 5]	**(4,565)**	(2,575)
Transfers to property, plant and equipment	**(34,593)**	(28,754)
Expired mineral leases	**(987)**	(4,260)
Balance, end of period	**123,706**	120,166

The Company reviews its E&E assets for indicators of potential impairment each reporting period and prior to transferring E&E costs to PP&E. Except for costs associated with the expiry of mineral leases which are recognized as exploration and evaluation expense in the period incurred, the Company concluded that there are no indicators of potential impairment of its E&E assets at September 30, 2017.

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	September 30, 2017	December 31, 2016
Development and production ("D&P") assets	**1,075,129**	997,646
Corporate assets	**552**	531
Total net carrying value of property, plant and equipment	**1,075,681**	998,177

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2015	1,458,222	1,838	1,460,060
Additions	49,436	636	50,072
Property acquisitions [note 4]	18,538	-	18,538
Reclassification (to) from held for sale [note 5]	(163,166)	-	(163,166)
Property dispositions [note 5]	(11,520)	-	(11,520)
Decommissioning costs	(2,848)	-	(2,848)
Transfers from E&E	28,754	-	28,754
Balance at December 31, 2016	**1,377,416**	**2,474**	**1,379,890**
Additions	**138,459**	**769**	**139,228**
Property acquisitions [note 4]	**2**	**-**	**2**
Reclassification (to) from held for sale [note 5]	**163,166**	**-**	**163,166**
Property dispositions [note 5]	**(172,821)**	**-**	**(172,821)**
Decommissioning costs	**(2,867)**	**-**	**(2,867)**
Transfers from E&E	**34,593**	**-**	**34,593**
Balance at September 30, 2017	**1,537,948**	**3,243**	**1,541,191**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2015	334,042	1,113	335,155
Depletion and depreciation expense	139,217	830	140,047
Impairments, net of impairment reversals	(26,141)	-	(26,141)
Reclassification (to) from held for sale [note 5]	(62,085)	-	(62,085)
Property dispositions [note 5]	(5,263)	-	(5,263)
Balance at December 31, 2016	**379,770**	**1,943**	**381,713**
Depletion and depreciation expense	**90,800**	**748**	**91,548**
Reclassification (to) from held for sale [note 5]	**62,085**	**-**	**62,085**
Property dispositions [note 5]	**(69,836)**	**-**	**(69,836)**
Balance at September 30, 2017	**462,819**	**2,691**	**465,510**

There were no borrowing costs capitalized in the current or prior year, as the Company did not have any qualifying assets. Future capital costs required to develop proved reserves in the amount of $541.0 million (December 31, 2016 – $588.5 million) are included in the depletion calculation for development and production assets.

On July 31, 2017, the Company completed the purchase of a major infrastructure package for $12.5 million. After a new lease has been surveyed and built, this infrastructure package will be moved from the seller's location in northeastern BC and installed on a new site at Inga, BC, in close proximity to the Company's existing Inga facility located at 15-03-088-23W6 (see also, note 15 *"Commitments"*).

8. BANK DEBT

	September 30, 2017	December 31, 2016
Bank loan	**3,800**	82,100
Bankers' acceptances	**90,000**	30,000
Unamortized financing fees [(1)]	**(827)**	(407)
Bank debt	**92,973**	111,693

(1) Includes $0.2 million of prepaid interest and stamping fees on bankers' acceptances as at September 30, 2017 ($0.1 million as at December 31, 2016).

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. As at September 30, 2017, the authorized borrowing amount available under the Credit Facility was $185.0 million (unchanged from December 31, 2016). The Credit Facility is available for a revolving period of 364 days, maturing on April 28, 2018, and may be extended annually at Kelt's option and subject to lender approval, with a term-out to April 28, 2019 if not renewed.

The Credit Facility is subject to semi-annual borrowing base reviews, with the next review scheduled to occur during November 2017. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted dispositions (to a maximum in each calendar year which are in the aggregate not more than 5% of the borrowing base then in effect), permitted risk management activities (as more particularly described in note 13), permitted encumbrances and other standard business operating covenants. 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.

9. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2015	-	-	-
Issuance of convertible debentures	90,000	71,665	18,335
Issue costs	-	(2,832)	(725)
Deferred income tax liability	-	-	(4,754)
Accretion of discount	-	2,145	-
Balance at December 31, 2016	**90,000**	**70,978**	**12,856**
Accretion of discount	**-**	**2,606**	**-**
Balance at September 30, 2017	**90,000**	**73,584**	**12,856**

On May 3, 2016, the Company issued $90.0 million principal amount of convertible unsecured subordinated debentures for net proceeds of $86.4 million. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th, commencing November 30, 2016. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price"), being a conversion rate of approximately 181.8182 common shares per $1,000 principal amount of Debentures, subject to adjustment in certain events.

As at September 30, 2017, the Debentures are "in-the-money" based on the closing price of Kelt common shares on the TSX of $7.13 on September 29, 2017, being the last trading day in the quarter. To date, there have been no conversions and the $90.0 million principal amount is outstanding.

The Debentures are redeemable by the Company after May 31, 2019 and prior to May 31, 2020, in whole or in part, from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending five trading days (the "Current Market Price") prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after May 31, 2020 and prior to the Maturity Date, the Debentures may be redeemed by the Company, in whole or in part, from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

The Company may, at its option, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures upon redemption or due at maturity, by issuing common shares instead of cash (subject to the receipt of any required regulatory approvals and provided that no event of default has occurred). The number of common shares to be issued would be obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price on the date fixed for redemption or maturity, as applicable.

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) (note 14). At September 30, 2017, the fair value of the Debentures was $136.8 million (note 13).

10. DECOMMISSIONING OBLIGATIONS

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

	September 30, 2017	December 31, 2016
Balance, beginning of period	**128,047**	142,801
Obligations incurred	**3,027**	1,233
Obligations acquired [note 4]	**-**	278
Reclassification (to) from held for sale [note 5]	**2,532**	(2,532)
Obligations disposed [note 5]	**(2,797)**	(11,687)
Obligations settled	**(1,028)**	(782)
Changes in discount rate	**(6,994)**	(8,502)
Revisions to estimates	**1,100**	4,421
Accretion expense	**2,207**	2,817
Balance, end of period	**126,094**	128,047
Decommissioning obligations – current	**1,683**	1,450
Decommissioning obligations – non-current	**124,411**	126,597

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2017, the undiscounted amount of the estimated cash flows required to settle the obligation is $146.2 million (December 31, 2016 – $145.8 million), and is expected to be incurred over the next 50 years. Based on an inflation rate of 2.0%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $308.2 million at September 30, 2017 (December 31, 2016 – $305.9 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above. As at September 30, 2017, the carrying amount of the decommissioning obligations is based on a risk-free rate of 2.5% (December 31, 2016 – 2.3%).

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

11. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of September 30, 2017 (December 31, 2016 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2015	168,668	1,022,115
Issued for cash through common share offerings	6,085	31,690
Deferred premium on flow-through shares	-	(4,103)
Issued for cash on exercise of stock options	67	293
Transfer from contributed surplus on exercise of stock options	-	91
Released upon vesting of restricted share units	852	6,153
Share issue costs, net of deferred taxes	-	(280)
Balance at December 31, 2016	**175,672**	**1,055,959**
Issued for cash on exercise of stock options	**195**	**959**
Transfer from contributed surplus on exercise of stock options	**-**	**313**
Released upon vesting of restricted share units	**181**	**1,712**
Balance at September 30, 2017	**176,048**	**1,058,943**

Private placements of flow-through common shares

The table below summarizes flow-through common shares ("FTS") issued pursuant to private placements during the year ended December 31, 2016, and the cumulative amount of qualifying expenditures incurred over the expenditure periods. The Company has fully satisfied all obligations related to its FTS commitments as of September 30, 2017. Refer to note 18 *"Subsequent Events"* for information regarding private placements of FTS completed subsequent to the quarter ended September 30, 2017, and the related commitments to incur qualifying expenditures.

(CA$ thousands, except as otherwise indicated)					Eligible Expenditures (1)			Expenditure Period End / Effective date of Renunciation
						As at September 30, 2017		
Closing Dates	# of FTS	Price per FTS	Gross Proceeds	Deferred Premium	Type	**Incurred**	**Remaining**	
April 7, 2016	4.7 million	$4.70	22,090	2,585	CDE	**22,090**(2)	**-**	December 31, 2016 December 31, 2016
August 23, 2016	0.385 million	$6.50	2,500	638	CEE	**2,500**(3)	**-**	December 31, 2017 December 31, 2016
November 2, 2016	1.0 million	$7.10	7,100	880	CDE	**7,100**(4)	**-**	March 31, 2017 March 31, 2017

(1) Pursuant to the provisions of the *Income Tax Act* (Canada), the Company incurred eligible Canadian development expenses ("CDE") or Canadian exploration expenses ("CEE") as required under the respective subscription agreements.

(2) The full commitment of $22.1 million of qualifying expenditures were incurred as of December 31, 2016.

(3) The full commitment of $2.5 million of qualifying expenditures were incurred as of June 30, 2017.

(4) Of the total commitment of $7.1 million, Kelt incurred $5.8 million during the fourth quarter of 2016 and $1.3 million during the first quarter of 2017.

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 (000s)	Average Exercise Price ($/share)
Balance at December 31, 2015	6,690	7.40
Granted	2,533	4.71
Exercised [(1)]	(67)	4.38
Forfeited	(780)	7.85
Balance at December 31, 2016	**8,376**	**6.57**
Granted	**2,137**	**6.17**
Exercised [(1)]	**(195)**	**4.91**
Forfeited	**(289)**	**6.99**
Balance at September 30, 2017	**10,029**	**6.50**

(1) The weighted average share price on the date stock options were exercised during the period ended September 30, 2017 was $6.74 per common share ($5.25 per common share on average during the year ended December 31, 2016).

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	
	2017	2016
Risk free interest rate	**1.3%**	0.6%
Expected life (years)	**3.5**	3.5
Expected volatility [(1)]	**54.0%**	52.3%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**2.3%**	2.3%
Fair value of options granted during the year ($/share)	**2.42**	1.72

(1) The expected volatility for options granted is estimated based on Kelt's historical volatility over the expected life.

The following table summarizes information regarding stock options outstanding at September 30, 2017:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $5.00	3,483	3.5	4.52	1,123	4.53
$5.01 to $10.00	5,525	2.7	6.63	2,815	6.94
$10.01 to $15.00	961	1.5	12.42	961	12.42
$15.01 to $20.00	60	1.7	15.40	60	15.40
Total	**10,029**	**2.8**	**6.50**	**4,959**	**7.56**

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 (000s)
Balance at December 31, 2015	1,204
Granted	439
Released upon vesting	(852)
Forfeited	(71)
Balance at December 31, 2016	**720**
Granted	**258**
Released upon vesting	**(181)**
Forfeited	**(36)**
Balance at September 30, 2017	**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	
	2017	2016	**2017**	2016
Stock options	**931**	1,319	**2,687**	2,991
Restricted share units	**393**	482	**1,186**	1,351
Total share based compensation expense	**1,324**	1,801	**3,873**	4,342

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	
(Thousands of common shares)	**2017**	2016	**2017**	2016
Weighted average common shares outstanding, basic	**176,013**	174,349	**175,875**	172,338
Effect of stock options and RSUs	**1,193**	322	**1,329**	247
Effect of convertible debentures	**-**	-	**-**	-
Weighted average common shares outstanding, diluted	**177,206**	174,671	**177,204**	172,585

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. Accordingly, in computing the diluted loss per common share for the three and nine month periods ended September 30, 2017 and 2016, the Company excluded the effect of stock options and RSUs as they were anti-dilutive. The common shares potentially issuable on conversion of the Debentures are also excluded as they are anti-dilutive to the loss reported per share, for all periods outstanding.

12. INCOME TAXES

Kelt was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of September 30, 2017 are estimated to be approximately $973.2 million (December 31, 2016 – $975.4 million).

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Loss before income taxes	**(14,775)**	(18,553)	**(23,851)**	(82,063)
Canadian statutory tax rate	**26.8%**	26.6%	**26.7%**	26.6%
Expected income tax recovery	**(3,967)**	(4,935)	**(6,357)**	(21,829)
Increase (decrease) resulting from:				
Non-deductible expenses [(1)]	**358**	489	**1,049**	1,184
Recognition of unrecognized deferred tax asset	**(513)**	(513)	**(1,541)**	(1,541)
Qualifying expenditures on flow-through shares	**-**	1,921	**998**	1,921
Premium on flow-through shares	**-**	(228)	**(215)**	(228)
Change in tax rates	**-**	60	**-**	40
True-up of tax pools	**-**	(48)	**4**	20
Deferred income tax recovery	**(4,122)**	(3,254)	**(6,062)**	(20,433)

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

The Canadian statutory tax rate per the rate reconciliation above represents the weighted average combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the provincial tax rate is 11.0% in British Columbia and 12.0% in Alberta.

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, 2016	Recognized in profit and CI[(1)]	Recognized in balance sheet	**Balance at September 30, 2017**
Derivative financial instruments	162	34	-	**196**
PP&E and E&E	(144,335)	(2,466)	-	**(146,801)**
Decommissioning obligations	34,144	(519)	-	**33,625**
Convertible debentures	(4,368)	560	-	**(3,808)**
Share and debt issue costs	2,847	(1,178)	-	**1,669**
Reserve from common control transaction	(7,113)	1,541	-	**(5,572)**
Non-capital losses[(2)]	76,312	8,090	-	**84,402**
	(42,351)	**6,062**	**-**	**(36,289)**

(1) Comprehensive income has been abbreviated as “CI”.

(2) The Company’s non-capital losses expire in years 2023 to 2036.

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the nature and timing of future capital expenditures and the Company’s future operating results.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, accounts receivable and accrued revenue, deposits, accounts payable and accrued liabilities, derivative financial instruments, convertible debentures, and bank debt. 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.

The Company uses derivative financial instruments from time to time in order to manage market risks. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. All such transactions are conducted in accordance with the Company's established risk management policies that permit management to enter into commodity price agreements, provided that:

i) the contracts are not entered into for speculative purposes;
ii) the total notional quantity hedged, at the time of entering into the contract, does not exceed 65% of average daily production; and
iii) the contracted term does not exceed 36 months.

Commodity price risk management contracts

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 are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and U.S. dollar.

As at September 30, 2017, the following commodity price risk management contracts are outstanding:

Contract Type	Notional Volume	Reference Prices	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Financial Swap Natural Gas	10,000 MMBtu/d	SoCAL Border Avg. NYMEX Henry Hub	SoCAL Border Avg. plus US$0.055 per MMBtu	October 2017	**(117)**[(1)]
Financial Swap Propane	500 bbls/d	OPIS-Conway propane WTI Cushing Oklahoma	50% of US$WTI	October to December 2017	**(609)**[(2)]

(1) The fair value is sensitive to changes in natural gas reference prices. If the Southern California Border Average ("SoCAL Border Avg.") - NYMEX basis differential increased (decreased) by $0.10/MMBtu, the fair market value of the contract would decrease (increase) by less than $0.1 million.

(2) The fair value is sensitive to changes in propane reference prices. If the OPIS-Conway propane price increased (decreased) by 5% relative to the fixed contract price, the fair market value of the contract would decrease (increase) by approximately $0.1 million.

Interest rate risk management contracts

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. Based on average bank debt outstanding of $59.7 million during the first nine months of 2017, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) interest expense by $0.1 million.

Foreign exchange risk management contracts

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing. In addition, the Company has natural gas marketing arrangements in place whereby Kelt receives revenue in U.S. dollars. The Company also has commitments for firm gas transportation service under contracts denominated in U.S. dollars as outlined in note 15. The Company may enter into derivative contracts to mitigate the impact of foreign currency fluctuations. As at September 30, 2017, there were no foreign exchange risk management contracts outstanding.

On July 11, 2016, the Company entered into a foreign exchange swaption contract and received a cash premium of $0.255 million. The swaption was exercised by the counterparty resulting in a derivative contract that fixed the exchange rate at CA$/US$1.33 on a notional US$1.0 million per month over the initial contract term of January to

December 2017. On July 26, 2017, the Company unwound the foreign exchange swap for cash proceeds of $0.4 million, extinguishing the contract for the remaining five month term from August to December 2017. Kelt realized a cumulative net cash gain of $0.7 million under this contract, including the cash premium earned at inception.

Gains and losses on risk management contracts

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Realized gain (loss)	**41**	125	**(330)**	89
Unrealized gain (loss)	**(548)**	(241)	**(127)**	10
Gain (loss) on derivative financial instruments	**(507)**	(116)	**(457)**	99

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 Company maximizes the use of observable inputs when preparing calculations of fair value, where possible. 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 fair value of cash and cash equivalents, accounts receivable and accrued revenue, deposits, accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. Bank debt bears interest at a floating market rate and accordingly the fair market value of bank debt approximates the carrying amount. The fair value of the convertible debentures is estimated using quoted market prices on the TSX as of the Consolidated Statement of Financial Position date.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at September 30, 2017:

	Carrying Value ("CV")			Fair Value		
	Gross	Netting[1]	Net CV	Level 1	Level 2	Level 3
Financial liabilities						
Derivative financial instruments	726	-	-	-	726	-
Convertible debentures [2]	73,584	-	-	136,800	-	-

(1) Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Kelt offsets derivative contracts assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. As at September 30, 2017, there are no offsetting derivative financial contracts.

(2) The fair value of the convertible debentures of $136.8 million is based on the closing market price of $152.00 per Debenture, being the price at which the Debentures last traded in the third quarter, and represents the market value of the entire instrument.

Credit Risk

As at September 30, 2017, the carrying amount of cash and cash equivalents, accounts receivable and accrued revenue, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Company uses a combination of historical and forward looking information to determine the appropriate loss allowance provision.

During the nine months ended September 30, 2017, sales to three oil and gas marketers each individually represented more than 10% of total revenue. Sales to these marketers account for approximately 38%, 20%, and 10%, of total revenue, respectively. During the comparative period ended September 30, 2016, sales to four oil and gas marketers accounted for approximately 38%, 19%, 14%, and 10% of total revenue, respectively. Kelt's oil and gas marketers have provided parental guarantees (with terms ranging from two to five years), letters of credit, or have been rated investment-grade by a reputable ratings agency for substantially all of the Company's monthly credit exposure.

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

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

Accounts receivable and accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at September 30, 2017	**22,951**	**572**	**428**	**1,006**	**24,957**
Balance at December 31, 2016	28,657	539	253	957	30,406

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Due to the current business environment and low commodity prices, many oil and gas companies, including some of Kelt's partners, continue to face significant financial challenges. Management has reviewed past due accounts receivable balances as at September 30, 2017 and expects the accounts to be collectible, except for approximately $0.7 million of accounts receivable which are provided for in the allowance for doubtful accounts (December 31, 2016 – $0.8 million).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities include accounts payable, derivative financial instruments, bank debt and convertible debentures. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. As discussed further under the *Capital Management* section to follow, Kelt targets a relatively low debt to trailing adjusted 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.

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at September 30, 2017, the Company's working capital deficit of $41.8 million combined with outstanding bank debt of $93.0 million, represented 73% of the authorized borrowing amount available under the Credit Facility of $185.0 million (75% at December 31, 2016). As discussed in Note 8, the

Credit Facility is available for a revolving period of 364 days, maturing on April 28, 2018, and may be extended annually at Kelt's option and subject to lender approval, with a term-out to April 28, 2019 if not renewed. The next semi-annual borrowing base review is scheduled to occur during November 2017. In an event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of a re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at September 30, 2017:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	67,952	-	-	**67,952**
Derivative financial instrument liability	726	-	-	**726**
Bank debt and estimated interest (1)	3,068	94,730	-	**97,798**
Convertible debentures (2)	4,500	101,996	-	**106,496**
Total	**76,246**	**196,726**	**-**	**272,972**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate of 3.3% for the quarter ended September 30, 2017, applied to the principal balance outstanding as at that date. For purposes of this analysis, principal repayment of the Company's revolving Credit Facility is assumed to occur on April 28, 2019.

(2) The contractual maturity analysis includes semi-annual cash interest payments at the fixed coupon rate of 5.0%, assuming that the $90.0 million principal amount of the Debentures is outstanding for the full term to maturity on May 31, 2021, provided that: the equity conversion option is not first exercised by the holder; and that the Company does not elect to settle its financial obligation by issuing common shares instead of cash at redemption or maturity. Refer to additional information regarding the Debentures in note 9.

Capital Management

The Company's capital structure is comprised of shareholders' capital, convertible debentures, 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 bank debt to trailing adjusted funds from operations ratio, which is a non-GAAP financial measure.

	September 30, 2017	December 31, 2016
Bank debt	**92,973**	111,693
Working capital deficiency	**41,786**	26,349
Bank debt, net of working capital (1)	**134,759**	138,042
Trailing annualized adjusted funds from operations (2)(3)	**91,828**	92,400
Net bank debt to trailing adjusted funds from operations ratio (1)	**1.5**	1.5

(1) "Net bank debt" is equal to "Bank debt, net of working capital" determined in accordance with GAAP.

(2) Adjusted funds from operations is a non-GAAP financial measure which is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs, provisions for potential credit losses, and settlement of decommissioning obligations.

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

Kelt targets a net bank debt to trailing adjusted 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.

The Company's net bank debt to trailing adjusted funds from operations ratio was 1.5 times as at September 30, 2017, unchanged from 1.5 times at December 31, 2016. The Karr Property Disposition was completed on January 18, 2017 for cash proceeds of $103.1 million (note 5). The proceeds were used initially to reduce bank indebtedness under the Credit Facility, and a portion subsequently used, along with $78.8 million of cash provided by operating activities, to fund exploration and development capital expenditures during the nine month period ended September 30, 2017.

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at September 30, 2017, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

14. FINANCING EXPENSES

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Interest and fees on bank debt [note 8]	**904**	1,640	**2,297**	5,932
Interest on convertible debentures [note 9]	**1,134**	1,134	**3,366**	1,849
Accretion of convertible debentures [note 9]	**899**	814	**2,606**	1,301
Accretion of decommissioning obligations [note 10]	**743**	759	**2,207**	2,262
Financing expense	**3,680**	4,347	**10,476**	11,344

15. COMMITMENTS

As of September 30, 2017, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2017	2018	2019	2020	2021	Thereafter
Operating lease - office buildings	348	577	624	1,162	1,197	1,642
Operating lease - vehicles	86	287	174	24	-	-
Capital commitments (1)	-	2,408	-	-	-	-
Firm processing commitments	1,780	4,030	-	-	-	-
Firm transportation commitments (2)	6,537	28,448	18,114	14,270	12,360	52,516
Total annual commitments	**8,751**	**35,750**	**18,912**	**15,456**	**13,557**	**54,158**

(1) Estimated cost to complete relocation of equipment purchased on July 31, 2017 (note 7). Under the terms of the asset purchase agreement, Kelt is contractually obligated to remove the equipment from the seller's location on or before September 30, 2018.

(2) A portion of Kelt's commitments on the Alliance pipeline are denominated in US dollars. The volumes committed vary over the term of the contracts, which are effective until October 31, 2018, however, the maximum US denominated commitment in a given month does not exceed US$0.15 million. Amounts are translated to Canadian dollars at the spot rate on September 30, 2017 of CA$/US$1.2480.

Payments under the office building operating leases relate to the Company's head office in Calgary, Alberta, and field offices in Grande Prairie, Alberta and Fort St. John, British Columbia. The leases expire on April 30, 2023, February 28, 2020, and November 30, 2018, respectively, if not extended.

The Company has firm commitments for oil and gas transportation on major pipelines in Alberta and British Columbia. For periods subsequent to 2021, Kelt has an average annual commitment of $8.1 million for gas transportation until October 31, 2027 and an average annual commitment of $0.7 million for oil transportation until September 30, 2027.

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital	Three months ended September 30 2017	Three months ended September 30 2016	Nine months ended September 30 2017	Nine months ended September 30 2016
Accounts receivable and accrued revenue	**3,220**	951	**5,449**	3,504
Prepaid expenses and deposits	**231**	(91)	**(1,167)**	482
Accounts payable and accrued liabilities	**21,801**	(3,420)	**12,293**	(32,802)
Change in non-cash working capital	**25,252**	(2,560)	**16,575**	(28,816)
Relating to:				
Operating activities	**1,638**	(2,261)	**4,679**	(11,770)
Investing activities	**23,614**	(299)	**11,896**	(17,046)
Change in non-cash working capital	**25,252**	(2,560)	**16,575**	(28,816)

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

Cash outlays in respect of interest and taxes	Three months ended September 30 2017	Three months ended September 30 2016	Nine months ended September 30 2017	Nine months ended September 30 2016
Interest and standby fees on bank debt	**1,122**	1,446	**2,513**	5,964
Interest on convertible debentures (1)	**-**	-	**2,244**	-
Taxes (2)	**-**	-	**-**	-

(1) Interest on the Debentures is payable semi-annually on May 31st and November 30th (note 9).

(2) Kelt was not required to pay cash income taxes as the Company had sufficient income tax deductions available to shelter taxable income (note 12).

17. RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the nine months ended September 30, 2017, the Company incurred $0.2 million (2016 – $0.6 million) in legal fees and disbursements. The Company expects to continue using the services of this law firm from time to time.

18. SUBSEQUENT EVENTS

Flow-Through Equity Financings

In October 2017, the Company completed non-brokered private placements of 2.6 million common shares for aggregate gross proceeds of $20.6 million, of which: 2.0 million common shares were issued on a "flow-through" basis in respect of Canadian Development Expenses at a price of $7.75 per share for gross proceeds of $15.6 million (the "CDE Private Placement"); and 0.6 million common shares were issued on a "flow-through" basis in respect of Canadian Exploration Expenses at a price of $8.75 per share for gross proceeds of $5.0 million (the "CEE Private Placement"). After estimated expenses related to the private placements, net proceeds to Kelt were approximately $20.3 million.

Pursuant to the provisions in the *Income Tax Act* (Canada), Kelt will incur eligible Canadian Development Expenses prior to December 31, 2017, in the aggregate amount of not less than the total gross proceeds of the CDE Private Placement of $15.6 million.

In respect of the CEE Private Placement, Kelt will incur eligible Canadian Exploration Expenses prior to December 31, 2018, in the aggregate amount of not less than the gross proceeds of $5.0 million. The qualifying expenditures to be incurred will be renounced to the subscribers of the flow-through common shares with an effective date of December 31, 2017, under the "look-back" provisions in the *Income Tax Act* (Canada).

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	Alberta Energy Company "C" Meter Station of the NOVA Pipeline System
NIT	NOVA Inventory Transfer ("AB-NIT"), being the reference price at the AECO Hub
WTI	West Texas Intermediate
NYMEX	New York Mercantile Exchange
Station 2	Spectra Energy receipt location
NGX	Natural Gas Exchange Inc. (Canada)
API	American Petroleum Institute
MD&A	Management's Discussion and Analysis
Q1	First quarter ended March 31st
Q2	Second quarter ended June 30th
Q3	Third quarter ended September 30th
Q4	Fourth quarter ended December 31st
YTD	Year to date
BT	Before income taxes
AT	After income taxes
1P	Proved reserves
2P	Proved plus probable reserves
CGU	Cash generating unit
CDE	Canadian Development Expenses
CEE	Canadian Exploration Expenses

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]
Partner, Borden Ladner Gervais LLP

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

Neil G. Sinclair [2, 3, 4, 5, 6]
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 & Chief Financial Officer

Douglas J. Errico
Vice President, Land

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

Ashley D. Hohm
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick W.G. Miles
Vice President, Exploration

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Convertible Debentures “KEL.DB”

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