FIRST QUARTER REPORT

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2015

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

(CA$ thousands, except as otherwise indicated)	**Q1 2015**	Q1 2014	%
FINANCIAL			
Revenue, before royalties and financial instruments	**39,383**	47,793	-18%
Funds from operations(1)	**13,980**	26,112	-46%
Basic ($/ common share)(1)	**0.11**	0.24	-54%
Diluted ($/ common share)(1)	**0.11**	0.23	-52%
Profit (loss) and comprehensive income (loss)	**(16,524)**	4,851	-
Basic ($/ common share)	**(0.13)**	0.04	-
Diluted ($/ common share)	**(0.13)**	0.04	-
Total capital expenditures, net of dispositions	**77,700**	40,933	90%
Total assets	**966,613**	666,257	45%
Bank debt	**105,117**	-	-
Working capital deficiency (surplus)	**33,633**	(123,150)	-
Shareholders' equity	**635,708**	539,410	18%
Weighted average common shares outstanding (000's)			
Basic	**128,194**	110,991	15%
Diluted	**128,920**	112,788	14%
OPERATIONS			
Average daily production			
Oil (bbls/d)	**4,957**	2,428	104%
NGLs (bbls/d)	**1,379**	654	111%
Gas (mcf/d)	**58,016**	42,367	37%
Combined (BOE/d)	**16,005**	10,143	58%
Production per million common shares (BOE/d)(1)	**125**	91	37%
Average realized prices, after financial instruments			
Oil ($/bbl)	**45.42**	89.62	-49%
NGLs ($/bbl)	**40.52**	69.36	-42%
Gas ($/mcf)	**3.05**	6.00	-49%
Operating netbacks(1) ($/BOE)			
Oil and gas revenue	**27.34**	52.36	-48%
Realized gain (loss) on financial instruments	**1.27**	(1.37)	-
Average realized price, after financial instruments	**28.61**	50.99	-44%
Royalties	**(3.29)**	(6.52)	-50%
Production and transportation expense	**(14.54)**	(15.07)	-4%
Operating netback(1)	**10.78**	29.40	-63%
Drilling Activity			
Total wells	**7**	8	-13%
Working interest wells	**5.5**	6.9	-21%
Success rate on working interest wells	**100%**	100%	-
Undeveloped land			
Gross acres	**511,550**	346,120	48%
Net acres	**339,783**	227,284	49%

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

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. ("Kelt" or the "Company") is pleased to report its first quarter interim results to shareholders for the three months ended March 31, 2015.

Kelt achieved record production levels in the first quarter of 2015. Average production for the three months ended March 31, 2015 was 16,005 BOE per day, up 58% from the average production of 10,143 BOE per day during the first quarter of 2014. On a production per share basis, the first quarter of 2015 was up 37% compared to the first quarter of 2014. Daily average production in the first quarter of 2015 was 3% higher than the average production of 15,559 BOE per day in the fourth quarter of 2014. Kelt showed quarter over quarter production growth despite having approximately 930 BOE per day of production downtime during the first quarter of 2015 resulting from third party transportation restrictions and third party plant downtime. Kelt had anticipated the production downtime and therefore it has no impact on previously disclosed 2015 production guidance.

For the three months ended March 31, 2015, Kelt's revenue was $39.4 million, funds from operations was $14.0 million ($0.11 per share, diluted) and the loss was $16.5 million ($0.13 per share, diluted). At March 31, 2015, Kelt's bank debt, net of working capital was $138.8 million representing only 46% of its $300 million bank credit facility.

During the three months ended March 31, 2015, Kelt drilled 7 gross (5.5 net) oil and gas wells, with a 100% success rate. Five wells targeted the Montney formation in the Company's core areas at Pouce Coupe, Karr and Inga. In addition, a Chinook oil exploratory well was drilled at Grande Cache and a lower working interest well targeting Halfway oil was drilled at Progress.

Net capital expenditures incurred during the first quarter were $77.7 million, of which $37.6 million was for drilling and completing wells, $29.4 million was for facilities, pipelines and well equipment and $10.7 million was for land and property acquisitions. The Company remains on track to spend $150.0 million in capital expenditures during 2015, excluding the acquisition of Artek Exploration Ltd. ("Artek").

In April 2015, Kelt completed the acquisition of Artek, pursuant to which Kelt acquired all of the issued and outstanding common shares of Artek. Based on the volume-weighted average trading price of the Kelt common shares for the five trading days ended February 20, 2015 of $8.10 on the Toronto Stock Exchange, the deemed acquisition price was approximately $311.1 million, comprised of the issuance of approximately 26.9 million Kelt common shares and the assumption of approximately $93.2 million of estimated net debt as of April 16, 2015 ($97.7 million net of $4.5 million of intercompany balances that were extinguished as a result of the acquisition).

Recent well performance in both the Triassic Doig and Montney formations in the Company's Inga-Fireweed British Columbia core area, where wells have been completed using slick-water fractures, has shown very encouraging results to date with production significantly outperforming wells previously completed using other fracture systems. Two Doig wells that were completed using slick-water in the fourth quarter of 2014 have shown increases of almost 100% in productivity compared to the average Doig type well using propane completions. In just under six months, raw production to date from these two Inga Doig wells is approximately 232,000 BOE (48% free condensate) and 160,000 BOE (52% free condensate) respectively. In addition, three Montney wells have now been completed using slick-water fracture systems. Two of the Montney wells were in Fireweed where the IP30 was 1,147 BOE per day (60% free condensate) and 903 BOE per day (57% free condensate) respectively. The third Montney well, in Inga, has recently just been put on production and has shown similar initial characteristics to the two Fireweed Montney wells, however, the well has not been on production long enough to comment on actual productivity. The Company is excited about these results and is re-positioning its remaining 2015 drilling program to re-allocate budgeted spending to drill additional wells in its Inga-Fireweed property in British Columbia. Kelt's land holdings include approximately 167 net sections with Doig rights and approximately 157 net sections with Montney rights in its Inga-Fireweed-Stoddart British Columbia core area, which gives the Company inventory to pursue drilling operations for many years to come.

Given the recent change in government in Alberta, Kelt has elected to direct capital spending to its core area in British Columbia. This direction by Kelt is expected to continue until clarity from the new Alberta government on energy policies and taxation is determined. Capital spending in Alberta during the remainder of 2015 will be limited to well re-completions, partner joint operations and strategic acquisitions. In addition, during the remainder of 2015, Kelt will continue with its projects to pipeline connect the majority of its oil and liquids production in core producing areas, eliminating higher cost trucking operations.

In view of the current energy business environment with much lower oil and gas prices compared to 2014, Kelt has taken steps to take advantage of acquisition opportunities and has positioned itself financially to create sufficient financial flexibility to carry out its operations during the remainder of the year. Management is excited about the Company's prospects and looks forward to updating shareholders with 2015 second quarter results on or about August 11, 2015.

On behalf of the Board of Directors,

David J. Wilson
President and Chief Executive Officer
May 14, 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

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

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

This Management's Discussion and Analysis ("MD&A") is dated May 14, 2015 and should be read in conjunction with the Company's unaudited condensed interim financial statements and related notes as at and for the three months ended March 31, 2015 and its audited annual financial statements and MD&A as at and for the year ended December 31, 2014. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook – Accounting* ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the condensed interim financial statements for issue on May 14, 2015.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the Company's expected future financial position and operating results, as well as the amount and timing of future development capital expenditures. Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Actual reserves may be greater than or less than the estimates provided herein.

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

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

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

NON-GAAP MEASURES

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

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

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

(CA$ thousands, except as otherwise indicated)	**Q1 2015**	Q1 2014	%
Cash provided by operating activities	**12,357**	21,272	-42%
Transaction costs	**91**	28	225%
Settlement of decommissioning obligations	**-**	-	0%
Change in non-cash working capital	**1,532**	4,812	-68%
Funds from operations	**13,980**	26,112	-46%

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

(CA$ thousands, except as otherwise indicated)	**Q1 2015**	Q1 2014	%
Oil and gas revenue	**39,383**	47,793	-18%
Realized gain (loss) on financial instruments	**1,823**	(1,249)	-
Royalties	**(4,743)**	(5,948)	-20%
Production expenses	**(16,786)**	(11,339)	48%
Transportation expenses	**(4,151)**	(2,423)	71%
Operating income	**15,526**	26,834	-42%
Production (mBOE)	**1,440**	913	58%
Operating netback ($/BOE)	**10.78**	29.40	-63%

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

OTHER MEASUREMENTS

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

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

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

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no changes to the Company's internal controls over financial reporting during the interim period from January 1, 2015 to March 31, 2015 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

GROWTH STRATEGY

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

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

RESULTS OF OPERATIONS

FINANCIAL AND OPERATING HIGHLIGHTS

- During the first quarter of 2015, the Company achieved record production of 16,005 BOE per day, up 58% from 10,143 BOE per day in the same quarter of 2014, and up 3% from 15,559 BOE per day during the fourth quarter of 2014;
- The Company generated funds from operations in the amount of $14.0 million ($0.11 per common share, basic and diluted) during the first quarter of 2015, down 46% from $26.1 million ($0.24 per common share, basic and $0.23 per common share, diluted) in the same quarter of 2014. The decrease in funds from operations quarter over quarter reflects the impact of the precipitous decline in global energy prices with the Canadian Light Sweet oil price falling 47% and the AECO 5A gas price falling 52% over the same periods;
- During the first quarter of 2015, corporate royalty rates averaged 12.0% of revenue; production and transportation expense, combined, averaged $14.54 per BOE; and G&A expense averaged $0.47 per BOE. During the same quarter of the previous year, corporate royalty rates averaged 12.4% of revenue; production and transportation expense, combined, averaged $15.07 per BOE; and G&A expense averaged $0.97 per BOE;
- The Company's total capital expenditures amounted to $77.7 million during the first quarter of 2015, up 90% from $40.9 million in the same quarter of 2014. Of this total, $37.6 million was spent drilling and completing wells, $29.4 million was spent on infrastructure, $5.4 million was spent on land, and $5.3 million was spent on property "tuck-in" acquisitions. Kelt drilled 7 (5.5 net) wells during the three month period ended March 31, 2015, with a success rate of 100%; and
- During the first quarter of 2015, the Company raised gross proceeds of $33.4 million pursuant to a non-brokered private placement, issuing 3,881,400 common shares on a "flow-through" basis in respect of Canadian development expenses, at a price of $8.60 per flow-through common share. Certain directors and officers of the Company subscribed to purchase 1,714,500 flow-through common shares, representing approximately 44% of the aggregate issue.

REVENUE

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Average daily production:			
Oil (bbls/d)	**4,957**	2,428	104%
NGLs (bbls/d)	**1,379**	654	111%
Gas (mcf/d)	**58,016**	42,367	37%
Combined (BOE/d)	**16,005**	10,143	58%
Average realized prices, before financial instruments:			
Oil ($/bbl)	**45.45**	94.09	-52%
NGLs ($/bbl)	**25.73**	73.98	-65%
Gas ($/mcf)	**3.05**	6.00	-49%
Combined ($/BOE)	**27.34**	52.36	-48%
Average realized prices, after financial instruments:			
Oil ($/bbl)	**45.42**	89.62	-49%
NGLs ($/bbl)	**40.52**	69.36	-42%
Gas ($/mcf)	**3.05**	6.00	-49%
Combined ($/BOE)	**28.61**	50.99	-44%
Revenue, before royalties and financial instruments:			
Oil	**20,278**	20,556	-1%
NGLs	**3,193**	4,354	-27%
Gas	**15,912**	22,883	-30%
Total revenue, before royalties and financial instruments	**39,383**	47,793	-18%

During the three month period ended March 31, 2015, the Company earned revenue before royalties and financial instruments of $39.4 million, down 18% from $47.8 million in the same quarter of the previous year. The decrease in sales revenue is a result of the significant decline in global energy prices, which more than offset the increase in sales volumes.

The Company achieved record production in the first quarter of 2015, averaging 16,005 BOE per day, up 58% from 10,143 BOE per day during the same quarter of 2014, and up 3% from 15,559 BOE per day during the fourth quarter of 2014. The increase in average daily production reflects a combination of strategic acquisitions and the Company's active drilling program, as outlined further below:

- On February 9, 2015, Kelt acquired an additional 14.4% interest in the Spirit River Charlie Lake E&M Unit, consolidating the Company's working interest in the unit to 96.1% and adding approximately 50 BOE per day of production for the period following completion of the acquisition.
- On December 18, 2014, the Company acquired petroleum and natural gas assets located at Stoddart, directly adjacent to the Company's core area at Inga/Fireweed in northeastern British Columbia. At the time of the acquisition, production from the acquired assets was approximately 450 BOE per day.
- On July 2, 2014, the Company completed a corporate acquisition of a private company with the majority of its crude oil and natural gas assets located at Valhalla/La Glace in west central Alberta. Production from these assets was approximately 2,300 BOE per day at the time of the acquisition.
- The Company also has an active drilling program in its core areas at Inga/Fireweed, Karr, La Glace and Pouce Coupe/Spirit River. The remaining increase in daily average production is a result of incremental production from new wells drilled that more than offset corporate production declines.

The Company realized a combined average sales price of $27.34 ($28.61 after financial instruments) during the first quarter of 2015, down 48% from $52.36 ($50.99 after financial instruments) in the same quarter of the previous year. During the three month period ended March 31, 2015, production was weighted 40% to oil and NGLs compared to 30% in the same quarter of the previous year, reducing the impact of falling oil and gas prices on the Company's combined average realized price.

BENCHMARK COMMODITY PRICES

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

	Q1 2015	Q1 2014	%
WTI Cushing Oklahoma (US$/bbl)(1)	**48.63**	98.68	-51%
Average FX rate (CA$/US$)(1)	**1.2398**	1.1030	12%
WTI Cushing Oklahoma (CA$/bbl)(2)	**60.33**	108.87	-45%
Canadian Light Sweet (CA$/bbl)(1)(3)	**53.22**	100.18	-47%
As a % of CA$ WTI	**88%**	92%	-4%
Edmonton Pentane (CA$/bbl)(1)	**57.07**	112.92	-49%
As a % of CA$ WTI	**95%**	104%	-9%
Edmonton Butane (CA$/bbl)(1)	**43.39**	73.51	-41%
As a % of CA$ WTI	**72%**	68%	6%
Edmonton Propane (CA$/bbl)(1)	**10.50**	80.58	-87%
As a % of CA$ WTI	**17%**	74%	-77%
NYMEX Henry Hub (US$/mmbtu)(4)	**2.96**	4.90	-40%
AECO 5A (CA$/GJ)(5)	**2.60**	5.42	-52%

(1) Source: Sproule Associates Limited

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

(3) The Edmonton Light Par price was discontinued as of May 1, 2014, and replaced by the Canadian Light Sweet crude blend which is traded daily on the Net Energy Index. Historical information is not available for the Canadian Light Sweet index for periods prior to May 1, 2014.

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

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

OIL OPERATIONS

($/bbl)	**Q1 2015**	Q1 2014	%
Oil revenue	**45.45**	94.09	-52%
Realized loss on financial instruments	**(0.03)**	(4.47)	-99%
Average realized price, after financial instruments	**45.42**	89.62	-49%
Royalties	**(8.19)**	(17.04)	-52%
Production and transportation expense	**(15.59)**	(19.17)	-19%
Operating netback	**21.64**	53.41	-59%

During the first quarter of 2015, the Company realized an average price for oil sales of $45.45 per barrel ($45.42 after financial instruments), a decrease of 52% compared to the same quarter of the previous year. By comparison, the WTI index oil price decreased 51% from US$98.68 per barrel in the first quarter of 2014 to US$48.63 per barrel in the first quarter of 2015. Appreciation of the US dollar softened the impact of falling oil prices on the average oil price realized by the Company in Canadian dollars. Kelt's realized oil price reflects a discount to WTI that widened relative to the comparative quarter as the Company's new oil production has a higher sour content than the Company's older oil production. In addition, the Company's realized price was impacted by a wider differential between the Canadian Light Sweet reference price relative to the Canadian dollar equivalent WTI price compared to the first quarter of 2014.

Kelt has a forward foreign exchange contract fixing the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015. The exchange rate averaged $1.2619 during March 2015, resulting in a loss of $0.03 per barrel of oil production during the quarter.

Oil royalties averaged 18.0% during the first quarter of 2015, consistent with the average oil royalty rate of 18.1% during the first quarter of 2014.

Production and transportation expenses, combined, decreased 19% in the first quarter of 2015 to $15.59 per barrel compared to $19.17 per barrel during the same quarter of 2014. The Company incurred higher production expenses during the first quarter of 2014 related to the initial integration of a significant property acquisition completed in December of 2013. The decrease in per unit costs is also due to lower oil trucking expenses, as the Company was impacted by significant wait times during the first quarter of 2014.

NGL OPERATIONS

($/bbl)	**Q1 2015**	Q1 2014	%
NGLs revenue	**25.73**	73.98	-65%
Realized gain (loss) on financial instruments	**14.79**	(4.62)	-
Average realized price, after financial instruments	**40.52**	69.36	-42%
Royalties	**(2.90)**	(12.12)	-76%
Production and transportation expense	**(13.12)**	(15.24)	-14%
Operating netback	**24.50**	42.00	-42%

During the first quarter of 2015, the Company realized an average price for NGL sales of $25.73 per barrel ($40.52 after financial instruments), a decrease of 65% compared to an average price of $73.98 per barrel ($69.36 after financial instruments) during the first quarter of 2014. The decrease in the Company's average realized price reflects the sharp decline in market prices for all NGL products, noting that Edmonton benchmark prices for pentane, butane and propane fell by 49%, 41% and 87%, respectively, over the corresponding periods. The impact of the unprecedented decline in propane prices was partially mitigated by unwinding the Company's OPIS-Conway propane derivative contract for cash proceeds of US$1.5 million (CA$1.8 million) in January 2015.

NGL royalties averaged 11.3% during the first quarter of 2015 compared to 16.4% in the same quarter of the previous year. Lower NGL royalties reflect the significant decrease in NGLs prices. In addition, the decrease in the average NGLs royalty rate quarter over quarter is primarily due to gas cost allowance credits allocated to NGLs production, which do not fluctuate with NGL prices.

Production and transportation expenses, combined, for NGLs averaged $13.12 per barrel in the first quarter of 2015, down from $15.24 per barrel during the same quarter of the previous year. The Company incurred higher production expenses during the first quarter of 2014 related to the initial integration of a significant property acquisition completed in December of 2013.

GAS OPERATIONS

(CA$/mcf)	**Q1 2015**	Q1 2014	%
Gas revenue	**3.05**	6.00	-49%
Royalties	**(0.14)**	(0.40)	-65%
Production and transportation expense	**(2.37)**	(2.27)	4%
Operating netback	**0.54**	3.33	-84%
Barrel of oil equivalent netback ($/BOE)	**3.24**	19.98	-84%

During the three month period ended March 31, 2015, the Company realized an average price of $3.05 per MCF for gas sales, a decrease of 49% compared to $6.00 per MCF during same three month period of the previous year. By comparison, the AECO 5A index gas price decreased 52% from $5.42 per MCF in the first quarter of 2014 to $2.60 per MCF in the first quarter of 2015. The average gas price realized by the Company includes a heating value premium, earned primarily from gas produced at Inga/Fireweed in northeastern British Columbia.

Gas royalties averaged 4.6% during the quarter ended March 31, 2015 compared to 6.7% during the previous quarter ended March 31, 2014. Lower gas royalties reflect the significant decrease in gas prices as well as gas cost allowance credits which do not fluctuate with gas prices.

On a per unit basis, gas production and transportation expenses were relatively in line with the previous quarter, averaging $2.37 per MCF during the three month period ended March 31, 2015.

FINANCING EXPENSES

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Interest and fees on bank debt	**873**	51	1612%
Accretion of decommissioning obligations	**542**	379	43%
Financing expense	**1,415**	430	229%
Average bank debt outstanding	**77,401**	-	-
Average interest rate on indebtedness	**3.3%**	-	-
Interest and fees on bank debt, $ per BOE	**0.61**	0.06	917%

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. As at and during the quarter ended March 31, 2015, the authorized borrowing amount available under the Credit Facility was $235.0 million. Amounts drawn under the Credit Facility were primarily in the form of bankers' acceptances resulting in an average interest rate of 3.3% during the first quarter of 2015. Fees on bank debt include commitment fees and standby charges on the undrawn facility. Commitment fees and standby charges increased quarter over quarter as a result of an increase in the authorized borrowing amount (previously $100.0 million). Subsequent to the quarter ended March 31, 2015, on April 16, 2015, the Company amended and restated the Credit Facility agreement, increasing the authorized borrowing amount to $300.0 million. Refer to additional information under the heading entitled *Subsequent Events.*

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

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES

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

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Salaries and benefits	**1,095**	792	38%
Other G&A expenses	**801**	690	16%
Gross G&A expenses	**1,896**	1,482	28%
Overhead recoveries	**(1,223)**	(599)	104%
Total G&A expenses, net of recoveries	**673**	883	-24%
Net G&A ($ per BOE)	**0.47**	0.97	-52%

In conjunction with the Company’s significant growth, Kelt hired several new employees resulting in an increase in salaries, benefits and other overhead costs, including the cost of additional office space to accommodate new staff. The impact of the increase in gross G&A expenses is offset by higher overhead recoveries primarily due to higher capital spending (excluding acquisitions) on operated assets during the current quarter.

On a per unit basis, net G&A expenses decreased by 52% to $0.47 per BOE during the first quarter of 2015 compared to the corresponding period of the previous year. The decrease in per unit G&A expenses reflects the significant increase in production quarter over quarter, as well as management’s continued efforts to maintain a low cost structure.

SHARE BASED COMPENSATION

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Stock options	**1,331**	906	47%
Restricted share units	**1,175**	1,171	0%
Total share based compensation expense	**2,506**	2,077	21%
$ per BOE	**1.74**	2.28	-24%

Share based compensation expense increased quarter over quarter resulting from the amortization of expense related to additional stock options and RSUs granted to new employees. The decrease in per unit costs reflects the significant increase in production which more than offset the increase in expenses.

DEPLETION AND DEPRECIATION

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Depletion of development and production assets	**27,870**	14,218	96%
Depreciation of corporate assets	**163**	59	176%
Total depletion and depreciation	**28,033**	14,277	96%
$ per BOE	**19.46**	15.64	24%

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

EXPLORATION AND EVALUATION

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Expired mineral leases	**477**	85	461%
$ per BOE	**0.33**	0.09	267%

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

OTHER INCOME AND EXPENSES

Interest income

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Interest income	**-**	212	-100%
$ per BOE	**-**	0.23	-100%

During periods in which the Company has a cash surplus, cash on hand may be invested in short term guaranteed investment certificates or held on deposit in order to earn interest income.

Transaction costs

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Transaction costs	**91**	28	225%
$ per BOE	**0.06**	0.03	100%

In accordance with IFRS 3, transaction costs incurred pursuant to acquisitions are recognized as an expense. Transaction costs incurred during the first quarter of 2015 relate primarily to the acquisition of Artek Exploration Ltd., which closed subsequent to the quarter ended March 31, 2015.

Premium on flow-through shares

During the first quarter of 2015, the Company issued 3,881,400 flow-through shares at a price of $8.60 per flow-through share providing gross proceeds of $33.4 million. The implied premium on the flow-through shares was determined to be $2.9 million or $0.74 per flow-through share. As of March 31, 2015, the Company had incurred $10.3 million of qualifying expenditures, leaving $23.1 million of Canadian development expenses to be incurred prior to December 31, 2015. The deferred premium was drawn down in proportion to the qualifying expenditures incurred in the period resulting in $0.9 million being recognized as income during the first quarter of 2015. The remaining deferred premium of $2.0 million is presented as a current liability in the Statement of Financial Position as at March 31, 2015.

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

Gains and losses on derivative financial instruments

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

(CA$ thousands)	**Q1 2015**	Q1 2014	%
Realized gain (loss)	**1,823**	(1,249)	-
Unrealized loss	**(2,034)**	(2,165)	-6%
Loss on derivative financial instruments	**(211)**	(3,414)	-94%
$ per BOE	**(0.15)**	(3.74)	-96%

During the quarter ended March 31, 2015, the Company entered into a risk management contract fixing the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015. The exchange rate averaged $1.2619 during March 2015, resulting in a nominal loss during the quarter. In addition, the Company had a financial derivative contract which fixed the price of OPIS-Conway propane at US$40.95 per barrel on 250 barrels per day from March to December 2015. The contract was unwound in January 2015 for cash proceeds of US$1.5 million (CA$1.8 million).

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

INCOME TAXES

The Company recognized a deferred tax recovery of $1.6 million during the first quarter of 2015, compared to a deferred tax expense of $3.4 million in the same quarter of 2014. An analysis of the provision for deferred income taxes is included in note 12 of the interim financial statements. Deferred tax expense (recovery) reported differs from the expected expense (recovery) of income taxes calculated based on the statutory tax rate due to non-deductible share based compensation expense, recognition of an unrecognized deferred income tax asset, and the impact of flow-through shares.

Deferred income tax recoveries in the amounts of $0.1 million and $1.5 million were charged directly to equity in respect of share issue costs incurred in the first three months of 2015 and 2014, respectively.

Kelt was not required to pay income taxes in the current or prior period as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of March 31, 2015 are estimated to be approximately $651.4 million (COGPE 39%, CDE 18%, CEE 8%, UCC 24%, SIC 2%, NCL 9%).

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Profit (loss) and comprehensive income (loss)	**(16,524)**	4,851	-
Weighted average common shares outstanding, basic (000's)	**128,194**	110,991	15%
Weighted average common shares outstanding, diluted (000's)	**128,194**	112,788	14%
$ per common share, basic	**(0.13)**	0.04	-
$ per common share, diluted	**(0.13)**	0.04	-
$ per BOE	**(11.47)**	5.31	-

Kelt experienced significant growth over the past year, reporting an increase in total assets by 45% to $966.6 million at March 31, 2015 compared $666.3 million at March 31, 2014. Average daily production increased by 58% compared to the same quarter of the previous year. In spite of achieving record production with a higher oil and liquids weighting, the Company's total revenue fell by 18% over the same period due to the unprecedented industry-wide decline in commodity prices. Although production and transportation expenses decreased on a per unit basis, the Company's growth resulted in higher total expenses for production, transportation, financing, and depletion and depreciation. The decrease in revenue combined with an increase in total expenses resulted in a loss of $16.5 million for the three month period ended March 31, 2015.

FUNDS FROM OPERATIONS

(CA$ thousands, unless otherwise indicated)	**Q1 2015**	Q1 2014	%
Funds from operations[1]	**13,980**	26,112	-46%
Weighted average common shares outstanding, basic (000's)	**128,194**	110,991	15%
Weighted average common shares outstanding, diluted (000's)	**128,920**	112,788	14%
$ per common share, basic[2]	**0.11**	0.24	-54%
$ per common share, diluted[2]	**0.11**	0.23	-52%
$ per BOE	**9.71**	28.61	-66%

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

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

The Company generated funds from operations in the amount of $14.0 million ($0.11 per common share, basic and diluted) during the first quarter of 2015, down from $26.1 million ($0.24 per common share, basic and $0.23 per common share, diluted) in the same quarter of the previous year. The decrease in funds from operations for the first quarter of 2015 compared to the same quarter of the previous year reflects the impact of the precipitous decline in global energy prices with the Canadian Light Sweet oil price falling 47% and the AECO 5A gas price falling 52% over the same periods. The impact of lower total revenue on operating cash flow was compounded by higher total production and transportation costs required to support the 58% increase in production volumes over the same period, although the Company achieved a reduction in per unit royalties, production, transportation and G&A expenses.

INVESTMENT

CAPITAL EXPENDITURES

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

The Company's capital expenditures, including acquisitions and dispositions, are summarized in the following table:

	Three months ended March 31, 2015		Three months ended March 31, 2014		
	Amount	**% of total**	Amount	% of total	change
Capital expenditures:					
Lease acquisition and retention	**5,414**	**7%**	2,153	5%	151%
Geological and geophysical	**7**	**0%**	14	0%	-50%
Drilling and completion of wells	**37,592**	**48%**	42,461	104%	-11%
Facilities, pipeline and well equipment	**29,345**	**38%**	7,446	18%	294%
Corporate assets	**75**	**0%**	218	1%	-66%
	72,433	**93%**	52,292	128%	39%
Property acquisitions	**5,267**	**7%**	8,276	20%	-36%
Property dispositions	**-**	**-**	(19,635)	-48%	-
Capital expenditures, net of dispositions	**77,700**	**100%**	40,933	100%	90%

Kelt drilled 7 (5.5 net) wells during the three month period ended March 31, 2015, with an average working interest of 78%. In the same three month period of the previous year, Kelt drilled 8 (6.9) wells with an average working interest of 86%. The Company's capital expenditures in the first quarter of 2015 include $29.3 million of spending on infrastructure, primarily directed to expansion of the Karr 10-21 oil battery and compression facility as well as pipeline and gathering systems in the Karr area. In addition, the Company commenced construction of the west Pouce Coupe pipeline.

Spirit River property acquisition

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

Stoddart property acquisition

On December 18, 2014, the Company acquired petroleum and natural gas assets located at Stoddart, British Columbia, for cash consideration of $10.4 million. The acquired assets are a strategic and complimentary fit with the Company's core producing assets at Inga. In addition to the low decline liquids rich natural gas production and drilling upside, the assets include a significant infrastructure component. The Company expects that production expense on existing Inga production will be reduced and as more volumes are redirected through the infrastructure in the future, the Company expects a reduction in transportation expense for natural gas and NGLs. Furthermore, the infrastructure allows for significant natural gas volumes to flow into a medium cut third party facility at Stoddart which is expected to result in greater liquids yield from its liquids rich natural gas and incremental liquids volumes to be processed through its own terminal which will result in higher liquids netbacks than previously realized.

Acquisition of Capio Exploration Ltd.

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

Key attributes of the assets acquired:

- At the time of the acquisition, net production was approximately 2,300 BOE per day (70% oil/NGLs and 30% gas) from Triassic horizons, primarily from the Montney formation and also including production from the Halfway and Charlie Lake formations;
- Petroleum and natural gas reserves were evaluated independently by Sproule effective December 31, 2014:
    - Total proved reserves were 8.2 million BOE, with $41.7 million in associated future development capital;
    - Total proved plus probable reserves were 11.9 million BOE, with $41.7 million in associated future development capital;
- Infrastructure component with interests in major oil and gas facilities including a 100% ownership interest in an oil battery, recently upgraded to handle 3,500 barrels of oil per day and 20.0 mmcf of gas per day and 100% ownership interests in gas compressors and oil and gas gathering pipelines;
- Extensive land position that is a complementary fit geographically to Kelt's existing core areas at Pouce Coupe/Spirit River and is located approximately 18 miles south of Pouce Coupe/Spirit River and approximately 15 miles northwest of Grande Prairie. The acquisition included 38,400 gross acres (60 gross sections) and 32,981 net acres (51.5 net sections) of land; and
- The Valhalla/La Glace assets are now operated from Kelt's established field office located in Grande Prairie, Alberta.

Non-core property disposition

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

CAPITAL RESOURCES AND LIQUIDITY

SOURCE OF FUNDS

During the quarter ended March 31, 2015, the Company generated $12.4 million in cash provided by operating activities. The Company's capital expenditures in the first three months of 2015 were funded by cash provided by operating activities, the issuance of flow-through shares, and bank debt.

During the three month period ended March 31, 2015, the Company raised gross proceeds of $33.4 million pursuant to a non-brokered private placement of 3.9 million flow-through common shares at an issue price of $8.60 per flow-through common share. During the previous quarter ended March 31, 2014, the Company raised proceeds of $147.0 million through the issuance of 12.4 million common shares at an average price of $11.84 per common share. Details of the foregoing are set out in note 11 of the interim financial statements.

The Company has a revolving committed term Credit Facility with a syndicate of financial institutions, on which, Kelt had drawn $105.1 million at March 31, 2015. Subsequent to the quarter ended March 31, 2015, on April 16, 2015, the Company amended and restated the Credit Facility agreement, increasing the authorized borrowing amount from $235.0 million to $300.0 million, leaving sufficient unused credit lines to fund working capital, ongoing operations and capital expenditures. The amended and restated Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. Refer to additional information under the heading entitled *Subsequent Events*.

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

WORKING CAPITAL

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at March 31, 2015, the Company's working capital deficit of $33.6 million combined with outstanding bank debt of $105.1 million, represented 59% of the authorized borrowing amount available under the Credit Facility of $235.0 million. Refer to additional information under the heading entitled *Subsequent Events* regarding the increase in borrowing base to $300.0 million.

The Company's accounts receivable consists primarily of accrued revenue and joint venture receivables. The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas. This occurs on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. Kelt monitors its counterparty credit positions to mitigate any potential credit losses. To the extent that the Company has joint venture partners in its activities, it must collect the partners' share of capital expenditures and operating expenses on a monthly basis. Exceptions are in the event that the partners' share of a capital project is a significant amount. In this case, Kelt will collect such amounts from its partners in advance of expenditures taking place in accordance with standard industry operating procedures. At March 31, 2015, approximately 85% of accounts receivable are current. The balance of accounts receivable outstanding for more than 90 days is approximately $1.4 million and relates primarily to receivables from joint venture partners. Management has reviewed past due accounts and expects the balances to be fully collectible.

Accounts payable and accrued liabilities total $66.9 million as at March 31, 2015, of which approximately $16.0 million is payable and $50.9 million is accrued. Accrued liabilities include approximately $30.4 million of estimated capital expenditures related to the Company's first quarter capital program. Invoices are processed within the Company's normal payment period, which is typically 30 to 60 days.

LIQUIDITY

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company's financial liabilities are comprised of accounts payable and bank debt. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. Kelt targets a debt to trailing funds from operations ratio of less than 2.0 times. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. Kelt actively manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing capital investment levels. In addition, the Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. As a result of severely depressed commodity prices during the first quarter of 2015, Kelt's trailing debt to funds from operations ratio as at March 31, 2015 was 2.5 times (net debt of $138.8 million divided by annualized first quarter 2015 funds from operations of $14.0 million). In response to the current commodity price environment, in January 2015, the Board of Directors reduced the capital expenditure budget from $215.0 million to $150.0 million (excluding the acquisition of Artek Exploration Ltd.). The Company spent $77.7 million or 52% of the total $150 million budget during the first quarter of 2015. As the pace of capital spending is moderated during the balance of 2015 and as new and behind pipe production is brought on stream, the Company expects the net debt to trailing funds from operations ratio to decrease to an acceptable level. The Company forecasts bank debt, net of working capital, to be 1.7 times forecast funds from operations as at December 31, 2015. Refer to additional information under the heading entitled *2015 Guidance* as well as advisories regarding forward looking statements.

As at March 31, 2015, the Company had drawn $105.1 million on its $235.0 million revolving committed term Credit Facility. Subsequent to the quarter ended March 31, 2015, on April 16, 2015, the Company amended and restated the Credit Facility agreement, increasing the authorized borrowing amount to $300.0 million. The amended and restated Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. Repayments of principal are not required provided that the borrowings under the Credit Facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Company is not subject to any financial covenants under the Credit Facility and as at March 31, 2015, Kelt is in compliance with all other covenants.

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2015 there were 131.5 million common shares issued and outstanding (as at May 14, 2015, there were 158.4 million common shares outstanding). There are no preferred shares issued or outstanding.

As at March 31, 2015, officers, directors, and employees have been granted options to purchase 4.9 million common shares of the Company at an average exercise price of $8.37 per common share. In addition, there are 1.2 million RSUs outstanding. Options and RSUs outstanding at March 31, 2015 represented 4.7% of total common shares outstanding. Additional information regarding the Company's stock options and RSUs is included in note 11 of the interim financial statements.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

The following table summarizes the Company's financial derivative risk management contracts outstanding as of March 31, 2015:

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Foreign exchange swap	US$3,000,000 per month	Bank of Canada noon rate	CA$/US$ 1.2580	April 1 to December 31, 2015	**(289)**
Derivative financial instrument liability					**(289)**

The fair value of the currency exchange contract is sensitive to changes in foreign exchange rates. If the Canadian/US dollar exchange rate increases (decreases) by $0.05, the fair market value of the contract would decrease (increase) by approximately $1.4 million.

Subsequent to the quarter ended March 31, 2015, the Company entered into an interest rate swap, fixing the one month Canadian Dollar Offered Rate ("CDOR") at 0.925% on a notional $100 million for a two year period from July 2015 to June 2017. The contract will settle monthly based on the difference between the fixed rate and the CDOR for the month.

CONTRACTUAL OBLIGATIONS

As of March 31, 2015, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2015	2016	2017	2018	2019	Thereafter
Operating lease – office buildings	875	1,229	1,253	495	114	19
Operating lease – vehicles	155	155	69	1	-	-
Flow-through shares	23,063	-	-	-	-	-
Firm transportation commitments	2,130	1,120	13	-	-	-
Total annual commitments	**26,223**	**2,504**	**1,335**	**496**	**114**	**19**

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

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 three months ended March 31, 2015, the Company incurred $0.3 million (2014 – $0.2 million) in legal fees and disbursements, of which, less than $0.3 million is payable at March 31, 2015 (2014 – $0.2 million). The Company expects to continue using the services of this law firm from time to time.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended March 31, 2015 and 2014.

SUBSEQUENT EVENTS

Acquisition of Artek Exploration Ltd.

On April 16, 2015, the Company closed the acquisition of Artek Exploration Ltd. ("Artek") by acquiring all of the issued and outstanding common shares of Artek pursuant to a statutory plan of arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement"). The common shares of Artek were acquired on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26,900,375 common shares of Kelt to the former shareholders of Artek. Based on the closing price of Kelt common shares on the TSX on April 16, 2015 of $9.02 per share, the share consideration is valued at $242.6 million. In addition, Kelt assumed a working capital deficit of $15.6 million and $82.1 million of bank indebtedness which was repaid by Kelt at closing and Artek's demand loan credit facility was terminated.

Pursuant to the Arrangement, Artek common shares were delisted from the TSX and Artek became a wholly-owned subsidiary of Kelt. Immediately following the completion of the Arrangement, a name change was effected to change the name of Artek to Kelt Exploration (LNG) Ltd. ("Kelt LNG"). Kelt has transferred all of its British Columbia assets to Kelt LNG and at the same time, Kelt LNG has transferred all of its Alberta assets to Kelt. Kelt LNG will operate in British Columbia as a wholly-owned subsidiary of Kelt.

The acquisition of Artek consolidates the majority of Kelt's land acreage in its Inga-Fireweed-Stoddart, British Columbia core area to 100% and is consistent with the Company's strategy to operate and control all of its major core exploration and development prospects. In addition, Kelt's acquisition of Artek results in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in the area. The net present value of Artek's Inga-Fireweed-Stoddart reserves at December 31, 2014 represented approximately 90% of Artek's total corporate reserves value.

The table below summarizes management's preliminary estimate of the allocation of the purchase price:

Number of Kelt common shares issued (thousands)	26,900
Fair value of Kelt common shares ($/share)[1]	$9.02
Fair value of common share consideration[1]	242,641
Settlement of pre-existing relationship	(4,514)
Net consideration	**238,127**
Net working capital, including bank debt	(97,712)
Exploration and evaluation assets	50,391
Property, plant and equipment	346,238
Decommissioning obligations	(12,935)
Deferred income tax liability	(29,690)
Fair value of net assets acquired[2]	**256,292**
Gain on acquisition[2]	**18,165**

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

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

Artek and Kelt were partners in joint operations. The settlement of the pre-existing relationship relates to $6.4 million of accounts payable by Kelt to Artek, net of $1.9 million of accounts receivable by Kelt from Artek, which were extinguished upon completion of the Arrangement.

The net working capital deficit includes $7.8 million of accounts receivable and accrued revenue, $0.5 million of deposits, $10.2 million of accounts payable and accrued liabilities and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid by Kelt at closing using borrowings available under Kelt's Credit Facility.

Credit Facility

Immediately subsequent to closing of the Arrangement, on April 16, 2015, the Company amended and restated its Credit Facility agreement, increasing the authorized borrowing amount from $235.0 million to $300.0 million. The amended and restated Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed.

SUMMARY OF QUARTERLY RESULTS

(CA$ thousands, except as otherwise indicated)	**Q1 2015**	Q4 2014	Q3 2014	Q2 2014
Revenue, before royalties and financial instruments	**39,383**	54,396	61,136	51,366
Funds from operations	**13,980**	29,668	31,984	27,973
Per share – basic ($/common share)	**0.11**	0.23	0.25	0.23
Per share – diluted ($/common share)	**0.11**	0.23	0.25	0.22
Profit (loss) and comprehensive income (loss)	**(16,524)**	1,256	1,185	3,336
Per share – basic ($/common share)	**(0.13)**	0.01	0.01	0.03
Per share – diluted ($/common share)	**(0.13)**	0.01	0.01	0.03
Total assets	**966,613**	908,709	820,241	669,098
Bank debt	**105,117**	46,929	-	-
Working capital deficiency (surplus)	**33,633**	57,501	37,219	(116,488)
Shareholders' equity	**635,708**	619,639	614,384	544,735
Average daily production (BOE/d)	**16,005**	15,559	13,872	11,381
Average realized price, after financial instruments ($/BOE)	**28.61**	39.96	47.49	48.23
Operating netback ($/BOE)	**10.78**	21.55	25.81	27.63
Netback as a percentage of revenue	**38%**	54%	54%	57%

	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenue, before royalties and financial instruments	47,793	18,543	12,388	11,860
Funds from operations	26,112	9,629	5,473	6,608
Per share – basic ($/common share)	0.24	0.09	0.06	0.08
Per share – diluted ($/common share)	0.23	0.09	0.06	0.08
Profit (loss) and comprehensive income (loss)	4,851	(1,838)	(2,400)	(737)
Per share – basic ($/common share)	0.04	(0.02)	(0.03)	(0.01)
Per share – diluted ($/common share)	0.04	(0.02)	(0.03)	(0.01)
Total assets	666,257	485,201	333,832	229,370
Bank debt	-	-	-	-
Working capital deficiency (surplus)	(123,150)	(20,500)	(123,774)	(58,058)
Shareholders' equity	539,410	392,872	294,820	191,256
Average daily production (BOE/d)	10,143	5,739	4,636	4,097
Average realized price, after financial instruments ($/BOE)	50.99	34.74	28.17	32.42
Operating netback ($/BOE)	29.40	18.67	12.94	18.42
Netback as a percentage of revenue	58%	54%	46%	57%

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

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

BUSINESS RISKS

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

BUSINESS OUTLOOK

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

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

CURRENT ECONOMIC ENVIRONMENT

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

The number of rigs drilling for crude oil in the U.S. declined to 668 in early May 2015, after peaking at about 1,600 in November 2014. With low current oil prices, Kelt believes that global oil supply will eventually be negatively affected as a result of significant reductions in capital investment. Kelt believes this will lead to higher crude oil prices in 2016.

The number of rigs drilling for natural gas in the U.S. declined to 221 in early May 2015, after peaking at about 1,600 in September 2008. Despite record high gas supply in the U.S. primarily due to higher productive shale wells, Kelt expects U.S. supply will be negatively affected as declines on new production sets in. In addition, with a declining crude oil rig count in the U.S., associated gas production will also be negatively affected. Kelt believes these factors bode well for natural gas prices in 2016.

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

2015 GUIDANCE

The oil and gas industry in North America continues to operate in a challenging commodity price environment as a result of low oil and gas prices. Due to market instability and volatile commodity prices, many oil and gas companies, including Kelt, have reduced their 2015 capital spending plans. Ultimately, lower capital investment in oil and gas drilling can be expected to balance the supply and demand ratio. Kelt believes that the current business environment creates opportunities to add value at a reasonable cost and is optimistic about the long-term outlook for oil and gas commodity prices. The Company is opportunity driven and is confident that it can grow its production base by building on its current inventory of development projects and by adding new exploration prospects.

The table below outlines the Company's financial and operating guidance for 2015:

(CA$ millions, except as otherwise indicated)	2015 Guidance
Average Production	
Oil (bbls/d)	6,250
NGLs (bbls/d)	2,000
Gas (mmcf/d)	70.50
Combined (BOE/d)	20,000
Production per million common shares (BOE/d)	137
Oil / NGLs / Gas production weighting	31%/10%/59%
Forecasted Average Commodity Prices	
WTI oil price (USD/bbl)	59.50
NYMEX natural gas price (USD/MMBTU)	3.25
AECO natural gas price ($/GJ)	3.10
Capital Expenditures	
Drilling & completions	88.0
Facilities, pipeline & well equipment	30.0
Land, seismic & property "tuck-in" acquisitions	32.0
Corporate Acquisition	307.0
Total Capital Expenditures	457.0
Funds from operations	114.4
Per share, diluted	0.75
Bank debt, net of working capital, at year-end	198.0
Debt/Trailing funds from operations ratio(1)	1.7 x
Weighted average common shares outstanding (MM)	149.9
Common shares issued & outstanding (MM)	158.4

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

Kelt has a revolving committed term Credit Facility with a syndicate of financial institutions, and as at May 14, 2015, the authorized borrowing amount is $300.0 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 cautionary statement on forward-looking statements and information set out herein.

The information set out herein under the heading “2015 Guidance” is “financial outlook” within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt’s reasonable expectations as to the anticipated results of its proposed business activities for 2015. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

ADDITIONAL INFORMATION

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

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
May 14, 2015

KELT EXPLORATION LTD.
STATEMENT OF FINANCIAL POSITION
[Unaudited]

(CA$ thousands)	[Notes]	**March 31, 2015**	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		**689**	1,049
Accounts receivable and accrued revenue	[13]	**32,895**	35,092
Prepaid expenses and deposits		**2,689**	2,839
Derivative financial instruments	[13]	**-**	1,745
Total current assets		**36,273**	40,725
Exploration and evaluation assets	[6]	**76,822**	79,294
Property, plant and equipment	[7]	**835,312**	770,484
Goodwill	[8]	**18,206**	18,206
Total assets		**966,613**	908,709
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**66,874**	96,776
Derivative financial instruments	[13]	**289**	-
Deferred premium on flow-through shares	[11]	**1,985**	692
Decommissioning obligations	[10]	**758**	758
Total current liabilities		**69,906**	98,226
Bank debt	[9]	**105,117**	46,929
Decommissioning obligations	[10]	**107,741**	94,033
Deferred income tax liability	[12]	**48,141**	49,882
Total liabilities		**330,905**	289,070
SHAREHOLDERS' EQUITY			
Shareholders' capital	[11]	**691,770**	657,102
Reserve from common control transaction		**(57,668)**	(57,668)
Contributed surplus		**12,617**	14,692
Retained earnings (deficit)		**(11,011)**	5,513
Total shareholders' equity		**635,708**	619,639
Total liabilities and shareholders' equity		**966,613**	908,709

Acquisitions	[5]
Commitments	[15]
Subsequent events	[18]

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Notes]	**2015**	2014
Revenue			
Oil and gas sales		**39,383**	47,793
Royalties		**(4,743)**	(5,948)
		34,640	41,845
Expenses			
Production		**16,786**	11,339
Transportation		**4,151**	2,423
Financing	[14]	**1,415**	430
General and administrative		**673**	883
Share based compensation	[11]	**2,506**	2,077
Depletion and depreciation		**28,033**	14,277
Exploration and evaluation	[6]	**477**	85
		54,041	31,514
Profit (loss) before other items and taxes		**(19,401)**	10,331
Interest income		**-**	212
Transaction costs	[4, 5]	**(91)**	(28)
Premium on flow-through shares	[11]	**1,579**	1,181
Loss on derivative financial instruments	[13]	**(211)**	(3,414)
Profit (loss) before taxes		**(18,124)**	8,282
Deferred income tax expense (recovery)	[12]	**(1,600)**	3,431
Profit (loss) and comprehensive income (loss)		**(16,524)**	4,851
Profit (loss) per common share			
Basic	[11]	**(0.13)**	0.04
Diluted	[11]	**(0.13)**	0.04

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

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

(CA$ thousands)	[Notes]	Shareholders' capital	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2014		**657,102**	**(57,668)**	**14,692**	**5,513**	**619,639**
Profit (loss) and comprehensive income (loss)					**(16,524)**	**(16,524)**
Common shares issued:						
Private placements	[11]	**33,380**				**33,380**
Less: deferred premium on flow-through shares	[11]	**(2,872)**				**(2,872)**
Share issue costs, net of tax	[11]	**(421)**				**(421)**
Release of restricted share units	[11]	**4,581**		**(4,581)**		**-**
Share based compensation	[11]			**2,506**		**2,506**
Balance at March 31, 2015		**691,770**	**(57,668)**	**12,617**	**(11,011)**	**635,708**
Balance at December 31, 2013		449,876	(57,668)	5,779	(5,115)	392,872
Profit (loss) and comprehensive income (loss)					4,851	4,851
Common shares issued:						
Private placements	[11]	146,986				146,986
Less: deferred premium on flow-through shares	[11]	(3,030)				(3,030)
Share issue costs, net of tax	[11]	(4,476)				(4,476)
Exercise of stock options	[11]	-		130		130
Share based compensation	[11]			2,077		2,077
Balance at March 31, 2014		589,356	(57,668)	7,986	(264)	539,410

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

KELT EXPLORATION LTD.
STATEMENT OF CASH FLOWS
[Unaudited]

		Three months ended March 31	
(CA$ thousands)	[Notes]	**2015**	2014
Operating activities			
Profit (loss)		**(16,524)**	4,851
Items not affecting cash:			
Accretion of decommissioning obligations	[10,14]	**542**	379
Share based compensation		**2,506**	2,077
Depletion and depreciation		**28,033**	14,277
Exploration and evaluation		**477**	85
Premium on flow-through shares		**(1,579)**	(1,181)
Unrealized loss on derivative financial instruments	[13]	**2,034**	2,165
Deferred income tax expense (recovery)		**(1,600)**	3,431
Change in non-cash operating working capital	[16]	**(1,532)**	(4,812)
Cash provided by operating activities		**12,357**	21,272
Financing activities			
Increase in bank debt		**58,188**	-
Issue of common shares	[11]	**33,380**	146,986
Proceeds on exercise of stock options	[11]	**-**	130
Share issue costs		**(562)**	(5,968)
Cash provided by financing activities		**91,006**	141,148
Investing activities			
Exploration and evaluation assets		**(14,787)**	(7,346)
Property, plant and equipment		**(57,646)**	(44,946)
Property acquisitions	[5]	**(5,267)**	(8,276)
Property dispositions	[4]	**-**	19,635
Change in non-cash investing working capital	[16]	**(26,023)**	14,938
Cash used in investing activities		**(103,723)**	(25,995)
Net change in cash and cash equivalents		**(360)**	136,425
Cash and cash equivalents, beginning of period		**1,049**	32,015
Cash and cash equivalents, end of period		**689**	168,440

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

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

1. DESCRIPTION OF THE BUSINESS

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

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

2. BASIS OF PRESENTATION

These condensed interim financial statements were approved and authorized for issue by the Company's Board of Directors on May 14, 2015.

a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook – Accounting*. These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed interim financial statements should be read in conjunction with the audited annual financial statements as at and for the year ended December 31, 2014.

b) Basis of measurement

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

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

c) Significant judgments and estimates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Accounting standards issued but not yet effective

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

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

4. PROPERTY DISPOSITION

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

5. ACQUISITIONS

Acquisition of Capio Exploration Ltd.

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

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

The table below summarizes the allocation of the purchase price:

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

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

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

Property acquisitions

During the three month period ended March 31, 2015, the Company completed minor acquisitions of petroleum and natural gas assets for aggregate cash consideration of approximately $5.3 million. The property acquisitions have been accounted for as business combinations using the acquisition method, whereby the net assets acquired and the liabilities assumed are recorded at fair value. The assets acquired are a complimentary fit with Kelt's existing core assets and are located in the Company's Spirit River, Pouce Coupe and Fireweed core areas.

The following table summarizes the aggregate fair value of net assets acquired pursuant to the minor property acquisitions completed during the first three months of 2015:

Exploration and evaluation assets	240
Property, plant and equipment	5,256
Decommissioning obligations	(229)
Fair value of net assets acquired	**5,267**
Cash consideration, after closing adjustments	**5,267**

Stoddart property acquisition

On December 18, 2014, the Company acquired petroleum and natural gas assets for cash consideration of $10.4 million, after closing adjustments. The assets acquired are primarily located at Stoddart, adjacent to the Company's core producing area at Inga/Fireweed, in northeastern British Columbia. The transaction has been accounted for as a business combination using the acquisition method whereby the net assets acquired and the liabilities assumed are recorded at fair value.

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

Exploration and evaluation assets	1,698
Property, plant and equipment	14,079
Decommissioning obligations	(5,420)
Fair value of net assets acquired	**10,357**
Cash consideration, after closing adjustments	**10,357**

Other 2014 property acquisitions

During the year ended December 31, 2014, the Company completed several minor acquisitions of petroleum and natural gas assets for aggregate cash consideration of approximately $14.4 million, after closing adjustments. The property acquisitions have been accounted for as business combinations using the acquisition method, whereby the net assets acquired and the liabilities assumed are recorded at fair value. The assets acquired are primarily located in the Pouce Coupe/Spirit River area of west central Alberta, and are a complimentary fit with Kelt's existing core assets.

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

Exploration and evaluation assets	6,670
Property, plant and equipment	9,410
Decommissioning obligations	(1,723)
Fair value of net assets acquired	**14,357**
Cash consideration, after closing adjustments	**14,357**

6. EXPLORATION AND EVALUATION ASSETS

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

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

	March 31, 2015	December 31, 2014
Balance, beginning of period	**79,294**	40,564
Additions	**14,787**	101,524
Property acquisitions [note 5]	**240**	8,368
Corporate acquisition [note 5]	**-**	10,832
Transfers to property, plant and equipment	**(17,022)**	(81,617)
Expired mineral leases	**(477)**	(377)
Balance, end of period	**76,822**	79,294

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

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	March 31, 2015	December 31, 2014
Development and production assets	**834,867**	769,951
Corporate assets	**445**	533
Total net carrying value of property, plant and equipment	**835,312**	770,484

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

Property, plant and equipment, at cost	D&P(1) Assets	Corporate Assets	Total PP&E
Balance at December 31, 2013	421,849	414	422,263
Additions	149,087	636	149,723
Property acquisitions [note 5]	23,489	-	23,489
Corporate acquisition [note 5]	184,757	-	184,757
Dispositions	-	(22)	(22)
Decommissioning costs	38,608	-	38,608
Transfers from E&E	81,617	-	81,617
Balance at December 31, 2014	**899,407**	**1,028**	**900,435**
Additions	**57,571**	**75**	**57,646**
Property acquisitions [note 5]	**5,256**	**-**	**5,256**
Decommissioning costs	**12,937**	**-**	**12,937**
Transfers from E&E	**17,022**	**-**	**17,022**
Balance at March 31, 2015	**992,193**	**1,103**	**993,296**

Accumulated depletion and depreciation	D&P(1) Assets	Corporate Assets	Total PP&E
Balance at December 31, 2013	45,450	105	45,555
Depletion and depreciation expense	84,006	412	84,418
Dispositions	-	(22)	(22)
Balance at December 31, 2014	**129,456**	**495**	**129,951**
Depletion and depreciation expense	**27,870**	**163**	**28,033**
Balance at March 31, 2015	**157,326**	**658**	**157,984**

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

The Company did not capitalize any general and administrative costs in respect of development and production activities during the current period. There were no borrowing costs capitalized in the current or prior period, as the Company did not have any qualifying assets.

Future capital costs required to develop proved reserves in the amount of $383.1 million (December 31, 2014 – $382.8 million) are included in the depletion calculation for development and production assets.

8. GOODWILL

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

9. BANK DEBT

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. As at March 31, 2015, the authorized borrowing amount available under the Credit Facility was $235.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on May 1, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 if not renewed. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company has 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. Covenants include reporting requirements, permitted indebtedness, permitted dispositions, permitted hedging, permitted encumbrances and other standard business operating covenants. There are no financial covenants under the Credit Facility. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $800.0 million and general assignment of book debts.

	March 31, 2015	December 31, 2014
Bank loan	**35,400**	47,200
Bankers' acceptances	**70,000**	-
Unamortized financing fees	**(283)**	(271)
Bank debt	**105,117**	46,929

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

Subsequent to the quarter ended March 31, 2015, on April 16, 2015, the Company amended and restated the Credit Facility agreement extending the revolving period for an additional 364 days to April 30, 2016 and increasing the authorizing borrowing amount to $300.0 million. Refer to note 18 *Subsequent Events.*

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:

	March 31, 2015	December 31, 2014
Balance, beginning of period	**94,791**	48,169
Obligations incurred	**327**	3,259
Obligations acquired [note 5]	**229**	7,542
Disposition of obligations held for sale [note 4]	**-**	(1,000)
Obligations settled	**-**	(229)
Changes in discount rate	**12,061**	35,095
Revisions to estimates	**549**	254
Accretion expense	**542**	1,701
Balance, end of period	**108,499**	94,791
Current portion of decommissioning obligations	**(758)**	(758)
Long-term portion of decommissioning obligations	**107,741**	94,033

The key assumptions on which the carrying amount of the decommissioning obligations is based, include a risk-free rate of 2.0% (December 31, 2014 – 2.3%) and an inflation rate of 2.0% (December 31, 2014 – 2.0%). The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2015, the undiscounted amount of the estimated cash flows required to settle the obligation is $107.6 million (December 31, 2014 – $105.9 million), and is expected to be incurred over the next 50 years.

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

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

11. SHARE CAPITAL

Authorized

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

Issued and outstanding

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

	Number of Shares (000's)	Amount ($ thousands)
Balance at December 31, 2013	110,026	449,876
Issued for cash through private placement offering	12,592	148,988
Deferred premium on flow-through shares	-	(3,722)
Issued pursuant to corporate acquisition [note 5]	4,271	66,243
Issued for cash on exercise of stock options	45	291
Transfer from contributed surplus on exercise of stock options	-	120
Share issue costs, net of deferred income taxes ($1,573)	-	(4,694)
Balance at December 31, 2014	**126,934**	**657,102**
Issued for cash through private placement offering	**3,881**	**33,380**
Deferred premium on flow-through shares	**-**	**(2,872)**
Released upon vesting of restricted share units	**708**	**4,581**
Share issue costs, net of deferred income taxes ($141)	**-**	**(421)**
Balance at March 31, 2015	**131,523**	**691,770**

There are no preferred shares issued or outstanding as of March 31, 2015 (2014 – nil).

i) Common share offerings

During the first quarter of 2015, the Company completed non-brokered private placements of 3.881 million flow-through common shares at a price of $8.60 per flow-through common share, resulting in gross proceeds of $33.4 million. The implied premium on the flow-through shares was determined to be $2.9 million or $0.74 per flow-through share, assuming a market price of $7.86 per ordinary common share. Certain directors and officers of the Company subscribed to purchase 1.714 million flow-through common shares for gross proceeds of $14.9 million, representing approximately 44% of the aggregate issue. Pursuant to the provisions of the *Income Tax Act* (Canada), the Company shall incur eligible Canadian development expenses, (the "Qualifying Expenditures") after the respective closing dates and prior to December 31, 2015 in the aggregate amount of not less than the total gross proceeds raised from the offering. As of March 31, 2015, the Company had incurred $10.3 million of Qualifying Expenditures, leaving $23.1 million of Qualifying Expenditures to be incurred in the balance of 2015.

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

On July 2, 2014, the Company issued 4,270,956 common shares to the shareholders of Capio as partial consideration for the acquisition (note 5). The number of common shares issued pursuant to the acquisition was negotiated based on a total value of $58.0 million divided by the five day volume weighted average price of Kelt common shares that traded on the Toronto Stock Exchange from June 9th to 13th of $13.58 per common share. Under IFRS 3 *Business Combinations*, the value of common share consideration must be recognized based on acquisition date fair value. Accordingly, the value of common share consideration of $66.2 million reported above is based on the closing price of Kelt common shares on July 2, 2014 of $15.51 per common share.

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

ii) Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000's)	Average Exercise Price ($/share)
Balance at December 31, 2013	2,421	6.84
Granted	2,624	9.79
Exercised[1]	(45)	6.47
Forfeited	(73)	8.91
Balance at December 31, 2014	**4,927**	**8.38**
Granted	**25**	**7.17**
Forfeited	**(35)**	**8.82**
Balance at March 31, 2015	**4,917**	**8.37**

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

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

	Three months ended March 31	
	2015	2014
Risk free interest rate	**0.7%**	1.3%
Expected life (years)	**3.0**	3.6
Expected volatility[1]	**40.3%**	31.1%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**3.1%**	0.1%
Fair value of options granted during the year ($/share)	**2.00**	2.95

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

The following table summarizes information regarding stock options outstanding at March 31, 2015:

Range of exercise prices per common share	Number of options outstanding (000's)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000's)	Weighted average exercise price for options exercisable ($/share)
$5.00 to $10.00	3,694	3.6	6.99	1,469	6.72
$10.01 to $15.00	1,163	4.0	12.42	278	12.26
$15.01 to $20.00	60	4.2	15.40	-	-
Total	**4,917**	**3.7**	**8.37**	**1,747**	**7.60**

iii) Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000’s)
Balance at December 31, 2013	1,623
Granted	208
Forfeited	(69)
Balance at December 31, 2014	**1,762**
Granted	**172**
Released upon vesting	**(708)**
Forfeited	**(13)**
Balance at March 31, 2015	**1,213**

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 March 31	
	2015	2014
Stock options	**1,331**	906
Restricted share units	**1,175**	1,171
Total share based compensation expense	**2,506**	2,077

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 March 31	
(000’s of common shares)	**2015**	2014
Weighted average common shares outstanding, basic	**128,194**	110,991
Effect of stock options and RSUs	**726**	1,797
Weighted average common shares outstanding, diluted	**128,920**	112,788

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 quarter ended March 31, 2015, the Company excluded the effect of stock options and RSUs as they were anti-dilutive.

12. INCOME TAXES

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

	Three months ended March 31	
	2015	2014
Current income tax expense	**-**	-
Deferred income tax expense (recovery)	**(1,600)**	3,431
Total income tax expense (recovery)	**(1,600)**	3,431

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

	Three months ended March 31	
	2015	2014
Profit (loss) before income taxes	**(18,124)**	8,282
Canadian statutory tax rate	**25.10%**	25.00%
Expected income tax expense (recovery)	**(4,549)**	2,071
Increase (decrease) resulting from:		
Non-deductible expenses(1)	**654**	521
Recognition of unrecognized deferred income tax asset	**(478)**	(473)
Qualifying Expenditures on flow-through shares [note 11]	**3,092**	1,607
Premium on flow-through shares [note 11]	**(396)**	(295)
Change in tax rates	**18**	-
True-up of tax pools	**59**	-
Deferred income tax expense (recovery)	**(1,600)**	3,431

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

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

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

Deferred income tax asset (liability)	Balance at December 31, 2014	Recognized in profit and CI(1)	Recognized in balance sheet	**Balance at March 31, 2015**
Derivative financial instruments	(438)	510	-	**72**
PP&E and E&E	(78,194)	(5,762)	-	**(83,956)**
Decommissioning obligations	23,786	3,450	-	**27,236**
Share and debt issue costs	3,283	(232)	141	**3,192**
Reserve from common control transaction	(10,430)	474	-	**(9,956)**
Non-capital losses(2)	12,111	3,160	-	**15,271**
	(49,882)	1,600	141	**(48,141)**

(1) Comprehensive income has been abbreviated as "CI"

(2) The Company's non-capital losses expire in 15-20 years.

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

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. The deferred income tax asset associated with derivative financial instruments is expected to reverse over the next twelve month period as it relates to a short-term risk management contract. The Company does not expect any other deferred income tax assets or liabilities to reverse within the next twelve months.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Offsetting of financial instruments

Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Kelt offsets derivative contracts assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. As at March 31, 2015, there are no offsetting derivative financial contracts.

Fair value measurements

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

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

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

The table below summarizes fair value measurements for each hierarchy level as at March 31 2015:

	Level 1	Level 2	Level 3
Financial liabilities			
Derivative financial instruments	-	289	-

Risk Management Overview

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

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

Credit Risk

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

Accounts receivable & accrued revenue	**March 31, 2015**	December 31, 2014
Joint venture partners	**9,292**	11,972
Oil and gas marketers	**14,040**	15,488
GST input tax credits	**6,322**	5,461
Risk management contracts	**-**	1,681
Other	**3,241**	490
Accounts receivable & accrued revenue	**32,895**	35,092

During the three month period ended March 31, 2015, sales to three external customers each individually represented more than 10% of total revenue. Sales to these customers account for approximately 38%, 24%, and 14% of total revenue, respectively. During the previous three month period ended March 31, 2014, sales to four external customers accounted for approximately 54%, 17%, 14% and 13% of total revenue, respectively.

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

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

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

The Company has an International Swaps and Derivatives Association ("ISDA") agreement with a Canadian chartered bank to address counterparty credit risk associated with derivative financial instruments. These agreements and confirmations provide some credit protection in that they generally allow parties to aggregate amounts owing to each other under all outstanding transactions and settle with a single net amount in the case of a credit event.

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

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

Accounts receivable & accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at March 31, 2015	**27,860**	**2,167**	**1,465**	**1,403**	**32,895**
Balance at December 31, 2014	31,071	2,499	208	1,314	35,092

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Management has reviewed past due accounts receivable balances and expects the accounts to be fully collectible.

Liquidity Risk

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

As at March 31, 2015, the Company had a net working capital deficit of $33.6 million. The capital intensive nature of Kelt's activities may create a working capital deficiency position during periods with high levels of capital investment. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. As discussed further under the Capital Management section to follow, Kelt targets a relatively low debt to trailing funds from operations ratio. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. The Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

The Company had drawn $105.1 million on its $235.0 million revolving committed term Credit Facility as at March 31, 2015. Subsequent to the quarter ended March 31, 2015, on April 16, 2015, the Company amended and restated the Credit Facility agreement, increasing the authorized borrowing amount to $300.0 million. The amended and restated Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. Repayments of principal are not required provided that the borrowings under the Credit Facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Company is not subject to any financial covenants under the Credit Facility and as at March 31, 2015, Kelt is in compliance with all other covenants.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at March 31, 2015:

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	66,874	-	-	66,874
Bank debt and estimated interest[1]	3,469	105,393	-	108,862
Total	**70,343**	**105,393**	**-**	**175,736**

(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 March 31, 2015, applied to the principal balance outstanding as at that date. Principal repayment of the Company's revolving Credit Facility is assumed on April 29, 2017.

Market Risks

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

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

Commodity price risk

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

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

The following table summarizes the Company's financial derivative risk management contracts outstanding as of March 31, 2015:

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Foreign exchange swap	US$3,000,000 per month	Bank of Canada noon rate	CA$/US$ 1.2580	April 1 to December 31, 2015	**(289)**
Derivative financial instrument liability					**(289)**

The fair value of the currency exchange contract is sensitive to changes in foreign exchange rates. If the Canadian/US dollar exchange rate increases (decreases) by $0.05, the fair market value of the contract would decrease (increase) by approximately $1.4 million.

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

	Three months ended March 31	
	2015	2014
Realized gain (loss)	**1,823**	(1,249)
Unrealized loss	**(2,034)**	(2,165)
Loss on derivative financial instruments	**(211)**	(3,414)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. An increase (decrease) of 1% in market interest rates would have decreased (increased) shareholders' equity and profit by $0.2 million for the three month period ended March 31, 2015, based on average debt outstanding of $78.9 in the quarter.

Subsequent to the quarter ended March 31, 2015, the Company entered into an interest rate swap, fixing the one month Canadian Dollar Offered Rate ("CDOR") at 0.925% on a notional $100 million for a two year period from July 2015 to June 2017. The contract will settle monthly based on the difference between the fixed rate and the CDOR for the month.

Foreign exchange rate risk

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

Kelt has a forward foreign exchange contract fixing the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015, representing approximately 40% of the Company's budgeted oil revenue currency exposure for the same period. The contract will settle monthly, based on the difference between the fixed rate and the average noon exchange rate for the month per the Bank of Canada.

In order to mitigate a portion of the risk relating to revenue that is subject to fluctuations in the exchange rate, the Company may enter into commodity swap transactions whereby commodity prices denominated in U.S. dollars are converted to Canadian dollars. There are no such contracts in place as at March 31, 2015.

Capital Management

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

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

	March 31, 2015	December 31, 2014
Bank debt	**105,117**	46,929
Working capital deficiency	**33,633**	57,501
Total debt	**138,750**	104,430
Trailing funds from operations(1)(2)	**55,920**	118,656
Debt to trailing funds from operations ratio	**2.5**	0.9

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

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

Kelt targets a debt to trailing funds from operations ratio of less than 2.0 times. As a result of severely depressed commodity prices during the first quarter of 2015, Kelt's trailing debt to funds from operations ratio as at March 31, 2015 was 2.5 times. The Company manages its capital structure and makes adjustments according to market conditions in order to maintain flexibility to achieve its objectives stated above. To adjust its capital structure, the Company may increase or decrease capital expenditures, issue new shares, issue new debt or repay existing debt.

As described in note 9, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at March 31, 2015, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

14. FINANCING EXPENSES

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

	Three months ended March 31	
	2015	2014
Interest and fees on bank debt	**873**	51
Accretion of decommissioning obligations [note 10]	**542**	379
Financing expense	**1,415**	430

15. COMMITMENTS

As of March 31, 2015, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2015	2016	2017	2018	2019	Thereafter
Operating lease – office buildings	875	1,229	1,253	495	114	19
Operating lease – vehicles	155	155	69	1	-	-
Flow-through shares	23,063	-	-	-	-	-
Firm transportation commitments	2,130	1,120	13	-	-	-
Total annual commitments	**26,223**	**2,504**	**1,335**	**496**	**114**	**19**

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2015**	2014
Accounts receivable and accrued revenue	**2,197**	(11,639)
Prepaid expenses and deposits	**150**	(310)
Accounts payable and accrued liabilities	**(29,902)**	22,075
Change in non-cash working capital	**(27,555)**	10,126
Relating to:		
Operating activities	**(1,532)**	(4,812)
Investing activities	**(26,023)**	14,938
Change in non-cash working capital	**(27,555)**	10,126

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

	Three months ended March 31	
Cash outlays in respect of interest and taxes	**2015**	2014
Interest and standby fees on bank debt	**903**	46
Taxes	**-**	-

17. RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the first three months ended March 31, 2015, the Company incurred $0.3 million (2014 – $0.2 million) in legal fees and disbursements, of which, $0.3 million is payable at March 31, 2015 (2014 – $0.2 million). The Company expects to continue using the services of this law firm from time to time.

18. SUBSEQUENT EVENTS

Acquisition of Artek Exploration Ltd.

On April 16, 2015, the Company closed the acquisition of Artek Exploration Ltd. ("Artek") by acquiring all of the issued and outstanding common shares of Artek pursuant to a statutory plan of arrangement under the *Business Corporations Act* (Alberta) (the "Arrangement"). The common shares of Artek were acquired on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26,900,375 common shares of Kelt to the former shareholders of Artek. Based on the closing price of Kelt common shares on the TSX on April 16, 2015 of $9.02 per share, the share consideration is valued at $242.6 million. In addition, Kelt assumed a working capital deficit of $15.6 million and $82.1 million of bank indebtedness which was repaid by Kelt at closing and Artek's demand loan credit facility was terminated.

Pursuant to the Arrangement, Artek common shares were delisted from the TSX and Artek became a wholly-owned subsidiary of Kelt. Immediately following the completion of the Arrangement, a name change was effected to change the name of Artek to Kelt Exploration (LNG) Ltd. ("Kelt LNG"). Kelt has transferred all of its British Columbia assets to Kelt LNG and at the same time, Kelt LNG has transferred all of its Alberta assets to Kelt. Kelt LNG will operate in British Columbia as a wholly-owned subsidiary of Kelt.

The table below summarizes management's preliminary estimate of the allocation of the purchase price:

Number of Kelt common shares issued (thousands)	26,900
Fair value of Kelt common shares ($/share)(1)	$9.02
Fair value of common share consideration(1)	242,641
Settlement of pre-existing relationship	(4,514)
Net consideration	**238,127**
Net working capital, including bank debt	(97,712)
Exploration and evaluation assets	50,391
Property, plant and equipment	346,238
Decommissioning obligations	(12,935)
Deferred income tax liability	(29,690)
Fair value of net assets acquired(2)	**256,292**
Gain on acquisition(2)	**18,165**

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

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

Artek and Kelt were partners in joint operations. The settlement of the pre-existing relationship relates to $6.4 million of accounts payable by Kelt to Artek, net of $1.9 million of accounts receivable by Kelt from Artek, which were extinguished upon completion of the Arrangement.

The net working capital deficit includes $7.8 million of accounts receivable and accrued revenue, $0.5 million of deposits, $10.2 million of accounts payable and accrued liabilities and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid by Kelt at closing using borrowings available under Kelt's Credit Facility.

Credit Facility

Immediately subsequent to closing of the Arrangement, on April 16, 2015, the Company amended and restated its Credit Facility agreement, increasing the authorized borrowing amount from $235.0 million to $300.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed.

ABBREVIATIONS

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

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 mmbtu = 1.054 GJ

0.949 mmbtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

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

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

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

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

Douglas J. Errico
Vice President, Land

Alan G. Franks
Vice President, Production

Douglas O. MacArthur
Vice President, Operations

Patrick Miles
Vice President, Exploration

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EVALUATION ENGINEERS

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Toronto Stock Exchange
Common Shares "KEL"

kelt exploration

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