kelt exploration

SECOND QUARTER REPORT

AS AT AND FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2015

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2015**	2014	%	**2015**	2014	%
FINANCIAL						
Revenue, before royalties and financial instruments	**52,131**	51,366	1%	**91,514**	99,159	-8%
Funds from operations[1]	**14,701**	27,973	-47%	**28,681**	54,085	-47%
Basic ($/ common share)[1]	**0.10**	0.23	-57%	**0.20**	0.46	-57%
Diluted ($/ common share)[1]	**0.09**	0.22	-59%	**0.20**	0.46	-57%
Profit (loss) and comprehensive income (loss)	**(7,407)**	3,336	**-**	**(23,931)**	8,187	-
Basic ($/ common share)	**(0.05)**	0.03	-	**(0.17)**	0.07	-
Diluted ($/ common share)	**(0.05)**	0.03	-	**(0.17)**	0.07	-
Total capital expenditures, net of dispositions	**341,905**	36,559	835%	**419,605**	77,492	441%
Total assets	**1,366,676**	669,098	104%	**1,366,676**	669,098	104%
Bank debt	**224,221**	-	-	**224,221**	-	-
Working capital deficiency (surplus)	**25,831**	(116,488)	-	**25,831**	(116,488)	-
Shareholders' equity	**872,647**	544,735	60%	**872,647**	544,735	60%
Weighted average shares outstanding (000's)						
Basic	**153,990**	122,456	26%	**141,163**	116,755	21%
Diluted	**155,300**	124,728	25%	**142,212**	118,832	20%
OPERATIONS						
Average daily production						
Oil (bbls/d)	**5,419**	2,590	109%	**5,189**	2,509	107%
NGLs (bbls/d)	**1,494**	826	81%	**1,437**	740	94%
Gas (mcf/d)	**75,362**	47,792	58%	**66,737**	45,094	48%
Combined (BOE/d)	**19,473**	11,381	71%	**17,749**	10,765	65%
Production per million common shares (BOE/d)[1]	**126**	93	35%	**126**	92	37%
Average realized prices, after financial instruments						
Oil ($/bbl)	**59.54**	96.08	-38%	**52.84**	92.97	-43%
NGLs ($/bbl)	**25.43**	63.60	-60%	**32.63**	66.12	-51%
Gas ($/mcf)	**2.85**	5.18	-45%	**2.94**	5.56	-47%
Operating netbacks[1] ($/BOE)						
Oil and gas revenue	**29.42**	49.59	-41%	**28.49**	50.89	-44%
Realized gain (loss) on financial instruments	**0.15**	(1.36)	-	**0.65**	(1.37)	-
Average realized price, after financial instruments	**29.57**	48.23	-39%	**29.14**	49.52	-41%
Royalties	**(2.91)**	(6.49)	-55%	**(3.07)**	(6.50)	-53%
Production expense	**(13.58)**	(12.26)	11%	**(12.72)**	(12.34)	3%
Transportation expense	**(2.85)**	(1.85)	54%	**(2.87)**	(2.23)	29%
Operating netback[1]	**10.23**	27.63	-63%	**10.48**	28.45	-63%
Drilling activity						
Total wells	**-**	8	-	**7**	16	-56%
Working interest wells	**-**	5.6	-	**5.5**	12.5	-56%
Success rate on working interest wells	**-**	100%	-	**100%**	100%	-
Undeveloped land						
Gross acres	**661,304**	377,462	75%	**661,304**	377,462	75%
Net acres	**532,538**	244,303	118%	**532,538**	244,303	118%

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

MESSAGE TO SHAREHOLDERS

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

Kelt achieved record average production levels in the second quarter of 2015. Average production for the three months ended June 30, 2015 was 19,473 BOE per day, up 71% from average production of 11,381 BOE per day during the second quarter of 2014. On a production per share basis, second quarter 2015 production was up 35% compared to the same period in 2014. Daily average production in the second quarter of 2015 was 22% higher than the average production of 16,005 BOE per day in the first quarter of 2015. Kelt showed strong production growth in the second quarter of 2015 despite having approximately 1,630 BOE per day of production downtime during the quarter resulting from third party transportation restrictions and plant/facility downtime.

For the three months ended June 30, 2015, revenue, before royalties and financial instruments was $52.1 million, funds from operations was $14.7 million ($0.09 per share, diluted) and the net loss was $7.4 million ($0.05 per share, diluted). During the second quarter of 2015, the Company experienced higher production and transportation expenses on a unit basis compared to the same quarter in 2014, primarily due to higher trucking costs at its B.C. properties, and one-time costs relating to the integration of the acquisition of Artek Exploration Ltd. ("Artek"), where Kelt took over as operator of the B.C. properties. In addition, fixed production expenses continued to be incurred in areas where Kelt had production downtime, resulting in higher per unit costs. Kelt expects these issues to be alleviated in the future when B.C. liquids production is pipeline connected and when third party transportation restrictions are lifted.

At June 30, 2015, bank debt, net of working capital was $250.1 million, representing 83% of its $300 million bank credit facility. Subsequent to the end of the second quarter, on July 7, 2015, Kelt completed equity offerings for gross proceeds of $90.0 million which have initially been used to pay down outstanding bank debt.

During the three months ended June 30, 2015, Kelt did not drill any new wells; however, the Company did incur capital expenditures completing previously drilled wells. In addition, Kelt incurred significant capital expenditures during the second quarter of 2015 on facilities and pipelines. These infrastructure expenditures will benefit the Company in the future by providing its oil and gas production with transportation to market and ultimately, production/transportation cost savings for products previously being trucked. Recently drilled wells in the Company's B.C. properties that were completed using slick-water in both the Doig and Montney formations, continue to perform at better than average type curve rates. As a result, the Company expects to drill five additional wells at Fireweed/Inga in the second half of 2015. The Company also expects to drill three Montney oil wells at its Pouce Coupe property near Grande Prairie, Alberta, during the remainder of 2015.

Net capital expenditures incurred during the second quarter were $341.9 million, of which $5.9 million was for completing wells, $11.5 million was for facilities, pipelines and well equipment and $11.4 million was for land, seismic and property acquisitions. During the second quarter of 2015, Kelt completed a strategic property acquisition at Karr, Alberta resulting in access to key infrastructure, including a 3.3% ownership interest in the Karr Gas Plant. In addition, the Company incurred $313.1 million to complete the acquisition of Artek.

On April 16, 2015, Kelt completed the acquisition of Artek by acquiring all of the issued and outstanding common shares of Artek on the basis of 0.34 of a Kelt common share for each Artek common share. Based on the volume-weighted average trading price of the Kelt common shares for the five trading days ended February 20, 2015 (the announcement date) of $8.10 on the Toronto Stock Exchange ("TSX"), the deemed acquisition price was approximately $313.1 million, comprised of the issuance of approximately 26.9 million Kelt common shares and the assumption of approximately $95.2 million of estimated net debt as at April 16, 2015. At closing, Artek was re-named Kelt Exploration (LNG) Ltd. ("Kelt LNG"). Kelt has transferred all of its B.C. assets to Kelt LNG and at the same time, Kelt LNG has transferred all of its Alberta assets to Kelt. Kelt LNG operates in B.C. as a wholly-owned subsidiary of Kelt.

Kelt's Board of Directors has approved an amended 2015 capital expenditure budget of $500.0 million. In aggregate, the Company expects to spend $106.8 million on drilling and completing wells, $44.0 million on facilities, equipment and pipelines, and $36.0 million on land, seismic and property acquisitions. The acquisition of Artek in the amount of $313.2 million makes up the remainder of the budget.

Kelt expects production in 2015 to average between 19,500 and 20,000 BOE per day. Production is expected to be weighted 28% oil, 9% NGLs, and 63% gas; however, operating income in 2015 is expected to be derived 70% from oil production, 12% from NGLs production, and 18% from gas production.

The Company's average commodity price assumptions for 2015 are US$56.50 per barrel for WTI oil, US$2.95 per MMBTU for NYMEX natural gas, $2.75 per GJ for AECO natural gas and a US/Canadian dollar exchange rate of US$0.786.

After giving effect to the aforementioned production and commodity price assumptions, the increased capital expenditure budget and the July 2015 equity offerings, funds from operations for 2015 is forecasted to be approximately $83.0 million or $0.53 per common share, diluted. Kelt estimates that the Company's bank indebtedness, net of working capital, will be approximately $187.5 million as at December 31, 2015 or 62% of its current credit facility borrowing capacity.

In light 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 third quarter results on or about November 10, 2015.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
August 7, 2015

MANAGEMENT’S DISCUSSION & ANALYSIS

INTRODUCTION

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

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

This Management’s Discussion and Analysis (“MD&A”) is dated August 7, 2015 and should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and related notes as at and for the three and six months ended June 30, 2015 and its audited annual financial statements and MD&A as at and for the year ended December 31, 2014. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the *CPA Canada Handbook – Accounting* (“CPA Handbook”). The CPA Handbook incorporates International Financial Reporting Standards (“IFRS”) and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company’s Board of Directors approved and authorized the condensed consolidated interim financial statements for issue on August 7, 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:

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Cash provided by operating activities	**24,939**	30,039	-17%	**37,296**	51,311	-27%
Transaction costs	**2,305**	17	13459%	**2,396**	45	5224%
Settlement of decommissioning obligations	**163**	-	-	**163**	-	-
Change in non-cash working capital	**(12,706)**	(2,083)	510%	**(11,174)**	2,729	-
Funds from operations	**14,701**	27,973	-47%	**28,681**	54,085	-47%

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Oil and gas sales	**52,131**	51,366	1%	**91,514**	99,159	-8%
Realized gain (loss) on financial instruments	**258**	(1,411)	-118%	**2,081**	(2,660)	-178%
Royalties	**(5,128)**	(6,726)	-24%	**(9,871)**	(12,674)	-22%
Production expenses	**(24,070)**	(12,699)	90%	**(40,856)**	(24,038)	70%
Transportation expenses	**(5,055)**	(1,913)	164%	**(9,206)**	(4,336)	112%
Operating income	**18,136**	28,617	-37%	**33,662**	55,451	-39%
Production (mBOE)	**1,772**	1,036	71%	**3,213**	1,949	65%
Operating netback ($/BOE)	**10.23**	27.63	-63%	**10.48**	28.45	-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.

“Net debt” is calculated by adding (subtracting) the working capital deficiency (surplus) to (from) bank debt.

OTHER MEASUREMENTS

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

NEW ACCOUNTING POLICIES

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

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in the consolidated interim financial statements are outlined in note 2 of the December 31, 2014 annual financial statements. There have been no significant changes in the Company's significant judgments and estimates applied during the interim period ended June 30, 2015 relative to those described in 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 April 1, 2015 to June 30, 2015 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

GROWTH STRATEGY

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

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

RESULTS OF OPERATIONS

SECOND QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

- During the second quarter of 2015, the Company achieved record production of 19,473 BOE per day, up 22% from 16,005 BOE per day during the first quarter of 2015 and an increase of 71% from 11,381 BOE per day in the second quarter of 2014;
- The Company generated funds from operations in the amount of $14.7 million ($0.10 per common share, basic and $0.09 per common share, diluted) during the second quarter of 2015. During the same quarter of the previous year, funds from operations was $28.0 million ($0.23 per basic common share, basic and $0.22 per common share, diluted). This equates to a 47% decrease quarter over quarter, reflecting the impact of the precipitous decline in global energy prices;
- During the second quarter of 2015, corporate royalty rates averaged 9.8% of revenue; production expense averaged $13.58 per BOE; transportation expense averaged $2.85 per BOE; and G&A expense averaged $0.94 per BOE. During the same quarter of the previous year, corporate royalty rates averaged 13.1% of revenue; production expense averaged $12.26 per BOE; and transportation expense averaged $1.85 per BOE; and G&A expense averaged $1.00 per BOE;
- Given the low commodity price environment, the Company did not spud any new wells during the second quarter of 2015 and the Company's capital expenditures (excluding acquisitions) amounted to $19.1 million, down 44% from $34.3 million in the same quarter of 2014. Of this total, $5.9 million was spent on completions, $11.5 million was spent on infrastructure and $1.7 million was spent on land and seismic;
- On April 1, 2015, Kelt completed a strategic property acquisition at Karr, Alberta, for cash consideration, before closing adjustments, of $10.0 million, resulting in access to key infrastructure, including a 3.3% interest in the Karr Gas Plant;
- On April 16, 2015, Kelt completed the acquisition of Artek Exploration Ltd. ("Artek") by acquiring all of the issued and outstanding common shares of Artek on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26.9 million Kelt common shares to the former shareholders of Artek. In addition, Kelt assumed Artek's working capital deficit, including bank debt, of $99.4 million. The acquisition of Artek consolidates the majority of Kelt's land acreage and ownership in key infrastructure 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; and
- On April 16, 2015, the Company amended and restated its Credit Facility (defined herein), increasing the authorized borrowing amount from $235.0 million to $300.0 million and extended the revolving period for an additional 364 days.

REVENUE

(CA$ thousands, except as otherwise indicated)	Three months ended June 30 2015	2014	%	Six months ended June 30 2015	2014	%
Average daily production:						
Oil (bbls/d)	**5,419**	2,590	109%	**5,189**	2,509	107%
NGLs (bbls/d)	**1,494**	826	81%	**1,437**	740	94%
Gas (mcf/d)	**75,362**	47,792	58%	**66,737**	45,094	48%
Combined (BOE/d)	**19,473**	11,381	71%	**17,749**	10,765	65%
Average realized prices, before financial instruments:						
Oil ($/bbl)	**59.02**	102.32	-42%	**52.58**	98.36	-47%
NGLs ($/bbl)	**25.43**	62.81	-60%	**25.57**	67.71	-62%
Gas ($/mcf)	**2.85**	5.18	-45%	**2.94**	5.56	-47%
Combined ($/BOE)	**29.42**	49.59	-41%	**28.49**	50.89	-44%
Average realized prices, after financial instruments:						
Oil ($/bbl)	**59.54**	96.08	-38%	**52.84**	92.97	-43%
NGLs ($/bbl)	**25.43**	63.60	-60%	**32.63**	66.12	-51%
Gas ($/mcf)	**2.85**	5.18	-45%	**2.94**	5.56	-47%
Combined ($/BOE)	**29.57**	48.23	-39%	**29.14**	49.52	-41%
Revenue, before royalties and financial instruments:						
Oil	**29,105**	24,117	21%	**49,383**	44,673	11%
NGLs	**3,457**	4,721	-27%	**6,650**	9,075	-27%
Gas	**19,569**	22,528	-13%	**35,481**	45,411	-22%
Total revenue, before royalties and financial instruments	**52,131**	51,366	1%	**91,514**	99,159	-8%

The Company achieved record production in the second quarter of 2015, averaging 19,473 BOE per day, up 22% from 16,005 BOE per day during the first quarter of 2015. The increase in average daily production during the second quarter of 2015 is primarily due to the acquisition of Artek on April 16, 2015, which more than doubled Kelt's production at its Inga-Fireweed-Stoddart core area in British Columbia ("BC"). In addition, behind-pipe production from wells previously drilled at Karr were brought on stream as the Company completed construction of gathering systems in the area; a strategic property acquisition at Karr also added approximately 110 BOE per day of gas production. The Company's production in northeastern BC and Grande Prairie was negatively impacted by third-party downtime and pipeline capacity constraints during the second quarter of 2015, which reduced Kelt's average daily production by approximately 1,630 BOE per day during the quarter.

Kelt's production averaged 17,749 BOE per day during the six month period ended June 30, 2015, up 65% from the same six month period of the previous year. The increase in average daily production over these periods reflects the acquisition of Capio Exploration Ltd. on July 2, 2014, combined with other strategic property acquisitions and an active drilling program in the second half of 2014 and first quarter of 2015.

The Company earned revenue before royalties and financial instruments of $52.1 million during the second quarter of 2015, up only 1% from the second quarter of 2014, despite increasing production by 71% over the same period. As a result of the significant decline in global energy prices, the Company's combined average sales price decreased to $29.42 per BOE ($29.57 after financial instruments) during the three month period ended June 30, 2015, down 41% from $49.59 per BOE ($48.23 after financial instruments) during the previous three month period ended June 30, 2014. During the second quarter of 2015, production was weighted 35% to oil and NGLs compared to 30% in the same quarter of the previous year. The increased proportion of NGL and oil production reduced the impact of falling oil and gas prices on the Company's combined average realized price, as gas prices were considerably weaker than liquids prices when compared on a barrel of oil equivalent basis.

Revenue before royalties and financial instruments was $91.5 million for the first half of 2015, a decrease of 8% compared to $99.2 million earned during the first half of 2014. The 44% decrease in the Company's combined average sales price more than offset the increase in production volumes. During the six month period ended June 30, 2015, production was weighted 37% to oil and NGLs compared to 30% in the same six month period of 2014.

BENCHMARK COMMODITY PRICES

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

	Q2 2015	Q2 2014	% change	**YTD 2015**	YTD 2014	% change
WTI Cushing Oklahoma (US$/bbl)(1)	**57.94**	102.96	-44%	**53.29**	100.82	-47%
Average FX rate (CA$/US$)(1)	**1.2289**	1.0912	13%	**1.2344**	1.0971	13%
WTI Cushing Oklahoma (CA$/bbl)(2)	**71.20**	112.35	-37%	**65.77**	110.61	-41%
Canadian Light Sweet (CA$/bbl)(1)(3)	**68.88**	106.68	-35%	**61.08**	103.43	-41%
As a % of CA$ WTI	**97%**	95%	2%	**93%**	94%	-1%
Edmonton Pentane (CA$/bbl)(1)	**71.26**	114.58	-38%	**64.16**	113.75	-44%
As a % of CA$ WTI	**100%**	102%	-2%	**98%**	103%	-5%
Edmonton Butane (CA$/bbl)(1)	**36.77**	69.58	-47%	**40.07**	71.54	-44%
As a % of CA$ WTI	**52%**	62%	-17%	**61%**	65%	-6%
Edmonton Propane (CA$/bbl)(1)	**1.99**	36.96	-95%	**6.21**	58.77	-89%
As a % of CA$ WTI	**3%**	33%	-92%	**9%**	53%	-82%
NYMEX Henry Hub (US$/mmbtu)(4)	**2.67**	4.56	-41%	**2.82**	4.73	-40%
AECO 5A (CA$/GJ)(5)	**2.52**	4.44	-43%	**2.56**	4.93	-48%

(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

	Three months ended June 30			Six months ended June 30		
(CA$/bbl)	**2015**	2014	%	**2015**	2014	%
Oil sales	**59.02**	102.32	-42%	**52.58**	98.36	-47%
Realized gain (loss) on financial instruments	**0.52**	(6.24)	-	**0.26**	(5.39)	-
Average realized price, after financial instruments	**59.54**	96.08	-38%	**52.84**	92.97	-43%
Oil royalties	**(7.41)**	(17.08)	-57%	**(7.78)**	(17.06)	-54%
Revenue, after royalties and financial instruments	**52.13**	79.00	-34%	**45.06**	75.91	-41%

During the three month period ended June 30, 2015, the Company realized an average price for oil sales of $59.02 per barrel, a decrease of 42% from $102.32 per barrel realized in the same three month period of 2014. Appreciation of the US dollar softened the impact of falling oil prices on the average oil price realized by the Company denominated in Canadian dollars. By comparison, the Canadian dollar equivalent WTI index oil price decreased 37% from $112.35 per barrel in the second quarter of 2014 to $71.20 per barrel in the second quarter of 2015. Kelt's realized oil price reflects a 17.5% discount to CA$WTI that widened from a discount of 9.5% in the comparative quarter of 2014.

For the six month period, Kelt's realized price for oil sales fell by 47% compared to a 41% decrease in the Canadian dollar equivalent WTI benchmark price as the quality differential widened in 2015.

Kelt has entered into a forward foreign exchange contract fixing the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015. The exchange rate averaged $1.2289 during the quarter ended June 30, 2015, resulting in a gain of $0.52 per barrel of oil during the quarter, or $0.26 per barrel year-to date.

Oil royalties averaged 12.6% and 14.8%, respectively, during the three and six month periods ended June 30, 2015. During the corresponding periods of the previous year, oil royalties averaged 16.7% and 17.3%. The decrease in the average royalty rate compared to the previous period reflects the decrease in oil prices as well as new oil production which qualifies for various royalty incentives.

NGL OPERATIONS

	Three months ended June 30			Six months ended June 30		
(CA$/bbl)	**2015**	2014	%	**2015**	2014	%
NGL sales	**25.43**	62.81	-60%	**25.57**	67.71	-62%
Realized gain (loss) on financial instruments	**-**	0.79	-	**7.06**	(1.59)	-
Average realized price, after financial instruments	**25.43**	63.60	-60%	**32.63**	66.12	-51%
NGL royalties	**(2.51)**	(8.30)	-70%	**(2.70)**	(9.98)	-73%
Revenue, after royalties and financial instruments	**22.92**	55.30	-56%	**29.93**	56.14	-47%

During the three and six month periods ended June 30, 2015, the Company realized an average price for NGL sales of $25.43 and $25.57 per barrel, respectively, a decrease of 60% and 62%, compared to the corresponding periods of the previous year. The decrease in the Company's average realized price reflects the sharp decline in market prices for all NGL products, noting that Edmonton benchmark prices for pentane, butane and propane fell by 44%, 44% and 89%, respectively, in the first six months of 2015 compared to average benchmark prices in the first six months of 2014. Edmonton propane prices continued to slide further in the current quarter to an average of $1.99 per barrel, down from $10.50 per barrel in the first quarter of 2015. The impact of falling propane prices on Kelt's combined average NGLs price was partially offset by stronger pentane prices which increased from $57.07 in the first quarter to $71.26 in the second quarter of 2015. Pentane and propane volumes accounted approximately 34% and 29%, respectively, of total NGL sales volumes during the second quarter of 2015. The impact of the unprecedented decline in propane prices was partially mitigated by unwinding the Company's OPIS-Conway propane derivative contract for cash proceeds of US$1.5 million (CA$1.8 million) in January 2015.

NGL royalties averaged 9.8% and 10.6%, respectively, during the three and six month periods ended June 30, 2015. During the corresponding periods of the previous year, NGL royalties averaged 13.2% and 14.7%. NGL royalties are reduced by gas cost allowance credits allocated to NGLs production, which do not fluctuate with NGL prices.

GAS OPERATIONS

	Three months ended June 30			Six months ended June 30		
(CA$/MCF)	**2015**	2014	%	**2015**	2014	%
Gas sales	**2.85**	5.18	-45%	**2.94**	5.56	-47%
Gas royalties	**(0.17)**	(0.48)	-65%	**(0.15)**	(0.44)	-66%
Revenue, after royalties and financial instruments	**2.68**	4.70	-43%	**2.79**	5.12	-46%

The Company realized an average gas sales price of $2.85 per MCF and $2.94 per MCF during the three and six month periods ended June 30, 2015, respectively, a decrease of 45% and 47% compared to the Company's realized gas sales price in the corresponding periods of the previous year. By comparison, the AECO 5A gas index price averaged $2.52 per GJ and $2.56 per GJ during the three and six month periods ended June 30, 2015, respectively, a decrease of 43% and 48% compared to the average AECO 5A reference price in the corresponding periods of the previous year. Kelt receives a premium to the AECO gas index price due to the higher heat content of its gas sales, however, during the second quarter of 2015, Kelt accessed non-AECO based contracts as a result of pipeline capacity constraints in northeastern British Columbia, which reduced the net price paid by purchasers.

Gas royalties averaged 6.0% and 5.1%, respectively, during the three and six month periods ended June 30, 2015. During the corresponding periods of the previous year, gas royalties averaged 9.2% and 7.9%. Lower gas royalties reflect the significant decrease in gas prices as well as gas cost allowance credits which do not fluctuate with gas prices.

PRODUCTION EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Production expense	**24,070**	12,699	90%	**40,856**	24,038	70%
$ per BOE	**13.58**	12.26	11%	**12.72**	12.34	3%

In conjunction with the Company's significant growth, total production expenses increased in each of the three and six month periods ended June 30, 2015. The increase in production expenses per BOE reflects the acquisition of oil/liquids weighted properties over the past 12 months, which carry higher costs than Kelt's historical average but would generally contribute to higher netbacks in a normal commodity price environment. During the second quarter of 2015, Kelt faced significant third-party downtime which reduced average production by approximately 1,630 BOE per day. As Kelt continued to incur fixed expenses during this downtime, per unit production expenses were negatively impacted. Production expenses during the second quarter of 2015 were also impacted by initial integration of the Artek acquisition, as Kelt took over as operator of the properties.

TRANSPORTATION EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Transportation expense	**5,055**	1,913	164%	**9,206**	4,336	112%
$ per BOE	**2.85**	1.85	54%	**2.87**	2.23	29%

Total transportation expenses increased in each of the three and six month periods ended June 30, 2015, as required to support the Company's significant growth in production. The increase in per unit transportation expenses can be partially attributed to the change in product mix; oil and NGLs are significantly more costly to transport than gas, on a barrel of oil equivalent basis. In addition, issues with infrastructure and pipeline capacity plaguing the industry throughout west central Alberta and northeastern British Columbia have resulted in higher transportation costs, as the Company was required, in certain circumstances, to utilize less cost effective methods of transport in order to get product to market. Kelt incurred higher trucking costs in northeastern British Columbia due to long wait times.

FINANCING EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Interest and fees on bank debt	**1,978**	230	760%	**2,851**	281	915%
Accretion of decommissioning obligations	**707**	410	72%	**1,249**	789	58%
Financing expense	**2,685**	640	320%	**4,100**	1,070	283%
Average bank debt outstanding	**208,044**	-	-	**143,083**	-	-
Average interest rate on indebtedness	**3.4%**	-	-	**3.4%**	-	-
Interest and fees on bank debt ($/BOE)	**1.12**	0.22	409%	**0.89**	0.14	536%

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. On April 16, 2015, the Company amended and restated its Credit Facility, increasing the authorized borrowing amount from $235.0 million to $300.0 million. Amounts drawn under the Credit Facility were primarily in the form of bankers' acceptances resulting in an average interest rate of 3.4% during each of the three and six month periods ended June 30, 2015. Fees on bank debt include commitment fees and standby charges on the undrawn facility.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Salaries and benefits	**1,531**	976	57%	**2,626**	1,768	49%
Other G&A expenses	**844**	669	26%	**1,645**	1,359	21%
Gross G&A expenses	**2,375**	1,645	44%	**4,271**	3,127	37%
Overhead recoveries	**(706)**	(606)	17%	**(1,929)**	(1,205)	60%
Total G&A expenses, net of recoveries	**1,669**	1,039	61%	**2,342**	1,922	22%
Net G&A ($ per BOE)	**0.94**	1.00	-6%	**0.73**	0.99	-26%

In conjunction with the Company's significant growth, Kelt hired several new employees resulting in an increase in salaries, benefits and other overhead costs, including the cost of additional office space to accommodate new staff. The impact of the increase in gross G&A expenses is partially offset by higher overhead recoveries in each period of 2015, primarily due to higher capital spending (excluding acquisitions) on operated assets during 2015.

Net G&A expenses averaged $0.94 per BOE and $0.73 per BOE during the three and six month periods ended June 30, 2015, respectively. The increase in per unit G&A expenses in the second quarter compared to the first quarter of 2015, in which G&A averaged $0.47 per BOE, is primarily due to a decrease in overhead recoveries resulting from limited capital spending (excluding acquisitions) during the second quarter of 2015. Per unit G&A expenses decreased by 26% period over period, reflecting the significant increase in production combined with management's continued efforts to maintain a low cost structure.

SHARE BASED COMPENSATION

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Stock options	**1,004**	922	9%	**2,335**	1,828	28%
Restricted share units ("RSUs")	**870**	1,067	-18%	**2,045**	2,238	-9%
Total share based compensation expense	**1,874**	1,989	-6%	**4,380**	4,066	8%
$ per BOE	**1.06**	1.92	-45%	**1.36**	2.09	-35%

Stock option expense increased in each of the three and six month periods ended June 30, 2015, resulting from the amortization of expense related to additional stock options granted to new employees. RSU expense decreased in the current period since compensation expense associated with previous grants is mostly already recognized due to graded amortization. The decrease in per unit costs reflects the significant increase in production which more than offset the increase in expense for the first six months of 2015.

DEPLETION AND DEPRECIATION

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Depletion of development and production assets	**37,452**	17,508	114%	**65,322**	31,726	106%
Depreciation of corporate assets	**253**	70	261%	**416**	129	222%
Total depletion and depreciation	**37,705**	17,578	115%	**65,738**	31,855	106%
$ per BOE	**21.28**	16.97	25%	**20.46**	16.35	25%

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Expired mineral leases	**947**	101	838%	**1,424**	186	666%
$ per BOE	**0.53**	0.10	430%	**0.44**	0.10	340%

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

OTHER INCOME AND EXPENSES

Other income

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

During periods in which the Company has a cash surplus, cash on hand may be invested in short term guaranteed investment certificates or held on deposit in order to earn interest income. Kelt earned interest income of $0.6 million and $0.8 million during the three and six month periods ended June 30, 2014. No interest was earned during the six month period ended June 30, 2015.

Transaction costs

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

Premium on flow-through shares

During the first quarter of 2015, the Company issued 3,881,400 flow-through shares at a price of $8.60 per flow-through share providing gross proceeds of $33.4 million. The implied premium on the flow-through shares was determined to be $2.9 million or $0.74 per flow-through share. As of June 30, 2015, the Company had incurred $14.5

million of qualifying expenditures, leaving $18.9 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 $0.3 million and $1.3 million being recognized as income during the three and six month periods ended June 30, 2015, respectively. The remaining deferred premium of $1.6 million is presented as a current liability in the Statement of Financial Position as at June 30, 2015.

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

Gains and losses on derivative financial instruments

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Realized gain (loss)	**258**	(1,411)	-	**2,081**	(2,660)	-
Unrealized gain (loss)	**361**	319	13%	**(1,673)**	(1,846)	-9%
Gain (loss) on derivative financial instruments	**619**	(1,092)	-	**408**	(4,506)	-
$ per BOE	**0.35**	(1.05)	-	**0.13**	(2.31)	-

The Company entered into a risk management contract to fix the Canadian/US dollar exchange rate at $1.2580 on a notional US$3.0 million per month from March to December 2015. The exchange rate averaged $1.2289 during the quarter ended June 30, 2015, resulting in a realized gain of $0.3 million for 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 of *Derivative Financial Instruments*.

INCOME TAXES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Current income tax expense	**-**	-	-	**-**	-	-
Deferred income tax expense (recovery)	**(2,046)**	6,483	-	**(3,646)**	9,914	-
Total income tax expense (recovery)	**(2,046)**	6,483	-	**(3,646)**	9,914	-

The Company recognized a deferred tax recovery of $2.0 million and $3.6 million, respectively, during the three and six months periods ended June 30, 2015. A detailed analysis of the provision for deferred income taxes is included in note 12 of the consolidated interim financial statements.

In June 2015, the Alberta government increased the general corporate tax rate from 10% to 12%, effective July 1, 2015. For corporations, such as Kelt, with a tax year spanning July 1, 2015, the two tax rates will be pro-rated resulting in an effective tax rate of 11% for Alberta in 2015, based on Kelt's December 31, 2015 year end.

During the second quarter of 2015, Kelt filed an amendment to its December 31, 2013 tax return to claim Scientific Research and Experimental Development ("SR&ED") expenditures. As the result of the SR&ED claim, Kelt earned $1.5 million of non-refundable federal investment tax credits, which can be applied against taxes payable in future periods. The impact of the SR&ED claim is reflected as a true-up adjustment during the quarter ended June 30, 2015.

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 June 30, 2015 are estimated to be approximately $925.0 million (COGPE 29%, CDE 19%, CEE 10%, UCC 21%, SIC 2%, NCL 19%).

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Profit (loss) and comprehensive income (loss)	**(7,407)**	3,336	-	**(23,931)**	8,187	-
Weighted avg. shares outstanding, basic (000's)	**153,990**	122,456	26%	**141,163**	116,755	21%
Weighted avg. shares outstanding, diluted (000's)	**153,990**	124,728	23%	**141,163**	118,832	19%
$ per common share, basic	**(0.05)**	0.03	-	**(0.17)**	0.07	-
$ per common share, diluted	**(0.05)**	0.03	-	**(0.17)**	0.07	-
$ per BOE	**(4.18)**	3.22	-	**(7.45)**	4.20	-

Kelt experienced significant growth over the past year, reporting an increase in total assets by 104% to $1.4 billion at June 30, 2015 compared to $669.1 million at June 30, 2014. Average daily production increased by 71% in the second quarter of 2015 compared to the same quarter of 2014 and by 65% from the same six month period in 2014. In spite of achieving record production with higher oil and liquids weighting, the Company's total revenue only grew by 1% for the three month period and decreased by 8% for the six month period, compared to revenue earned in the same periods last year, due to the industry-wide decline in commodity prices. 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 $23.9 million for the first half of 2015. The loss reported by Kelt for the three and six month periods ended June 30, 2015, is reduced by a bargain purchase gain of $18.5 million on the acquisition of Artek.

FUNDS FROM OPERATIONS

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Funds from operations(1)	**14,701**	27,973	-47%	**28,681**	54,085	-47%
Weighted avg. shares outstanding, basic (000's)	**153,990**	122,456	26%	**141,163**	116,755	21%
Weighted avg. shares outstanding, diluted (000's)	**155,300**	124,728	25%	**142,212**	118,832	20%
$ per common share, basic(2)	**0.10**	0.23	-57%	**0.20**	0.46	-57%
$ per common share, diluted(2)	**0.09**	0.22	-59%	**0.20**	0.46	-57%
$ per BOE	**8.30**	27.01	-69%	**8.93**	27.76	-68%

(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 $14.7 million ($0.10 per common share, basic and $0.09 per common share, diluted) during the second quarter of 2015, down from $28.0 million ($0.23 per common share, basic and $0.22 per common share, diluted) in the same quarter of 2014. During the first six months of 2015, the Company generated $28.7 million ($0.20 per common share, basic and diluted) of funds from operations, representing a decrease of 47% from $54.1 million ($0.46 per common share, basic and diluted) in the same six month period of 2014. The decrease in funds from operations reflects the impact of the precipitous decline in commodity prices in 2015. The impact of lower total revenue on operating cash flow was compounded by higher total production and transportation costs required to support the 71% increase in production volumes over the same period, although the Company realized a reduction in royalties and G&A expenses per unit.

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 June 30			Six months ended June 30		
(CA$ thousands, unless otherwise indicated)	**2015**	2014	%	**2015**	2014	%
Capital expenditures:						
Lease acquisition and retention	**684**	3,698	-82%	**6,098**	5,851	4%
Geological and geophysical	**1,065**	76	1301%	**1,072**	90	1091%
Drilling and completion of wells	**5,855**	23,873	-75%	**43,447**	66,334	-35%
Facilities, pipeline and well equipment	**11,054**	6,572	68%	**40,399**	14,018	188%
Corporate assets	**455**	75	507%	**530**	293	81%
	19,113	34,294	-44%	**91,546**	86,586	6%
Property acquisitions	**9,674**	2,265		**14,941**	10,541	
Property dispositions	**-**	-		**-**	(19,635)	
Corporate acquisition	**313,118**	-		**313,118**	-	
Capital expenditures, net	**341,905**	36,559	835%	**419,605**	77,492	441%

(1) The total cost of the Artek acquisition, as reported above, includes $217.9 million of common share consideration valued based on the negotiated price of $8.10 per common share of Kelt, and the $99.4 million working capital deficit assumed, net of $4.1 million of intercompany balances extinguished upon completion of the arrangement.

Due to the current commodity price environment and spring break up, Kelt did not drill any new wells during the second quarter of 2015. During the same three month period of the previous year, Kelt drilled 8 (5.6 net) wells with an average working interest of 69%. Year-to-date, the Company has drilled 7 (5.5 net) wells, with an overall success rate of 100% on net wells drilled and an average working interest of 78%. During the previous six month period ended June 30, 2014, the Company drilled 16 (12.5 net) wells with an average working interest of 78%. The Company's capital expenditures in the first six months of 2015 include $40.4 million of spending on infrastructure, primarily directed to expansion of the Karr 10-21 oil battery and compression facility as well as the construction of pipelines and gathering systems in the Karr area. In addition, the Company completed construction of the west Pouce Coupe pipeline.

Acquisition of Artek Exploration Ltd.

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

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

Number of Kelt common shares issued (thousands)	26,900
Fair value of Kelt common shares ($/share)(1)	$9.02
Fair value of common share consideration(1)	242,641
Settlement of pre-existing relationship	(4,125)
Net consideration	**238,516**
Net working capital, including bank debt	(99,350)
Exploration and evaluation assets	53,982
Property, plant and equipment	346,238
Decommissioning obligations	(11,966)
Deferred income tax liability	(31,914)
Fair value of net assets acquired(2)	**256,990**
Gain on acquisition(2)	**18,474**

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

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

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

The net working capital deficit includes $7.5 million of accounts receivable and accrued revenue, $0.4 million of deposits, $11.4 million of accounts payable and accrued liabilities and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid and terminated by Kelt at closing using borrowings available under Kelt's Credit Facility.

The Company recognized a gain on the acquisition of Artek as the total fair value of net assets acquired exceeds the fair value of the consideration paid for Artek's shares by $18.5 million.

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the Artek acquisition on April 16, 2015. Specifically, Kelt's profit (loss) for the period ended June 30, 2015 includes approximately $8.5 million of revenue and $2.4 million of operating income generated from the acquired interest in the properties subsequent to closing. If the acquisition had occurred on January 1, 2015, pro-forma revenue and operating income is estimated to be approximately $22.0 million and $3.9 million, respectively, for the six month period ended June 30, 2015. Operating income is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

Key attributes of the assets acquired:

- Average production of Artek's Inga-Fireweed-Stoddart assets at the time of the acquisition was approximately 4,800 BOE/d (48% oil/ NGLs, and 52% gas) primarily from the Montney and Doig formations;
- Artek's petroleum and natural gas reserves were evaluated independently by Sproule effective December 31, 2014. Total proved reserves were 24.0 million BOE, with $184.0 million in associated future development capital

and total proved plus probable reserves were 46.4 million BOE, with $291.0 million in associated future development capital;

- The acquisition adds to Kelt's land holdings in the British Columbia core area, adding 259,524 gross acres (405 sections) and 220,848 net acres (345 sections) of land, 202,967 net acres (317 net sections) were undeveloped; and
- Kelt's acquisition of Artek results in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in the area.

Karr property acquisition

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

Spirit River property acquisition

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

Non-core property disposition

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

CAPITAL RESOURCES AND LIQUIDITY

SOURCE OF FUNDS

During the six month period ended June 30, 2015, the Company generated $37.3 million in cash provided by operating activities. The Company's capital expenditures in the first six months of 2015 were funded by cash provided by operating activities, the issuance of flow-through shares, and bank debt.

During the six month period ended June 30, 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 year ended December 31, 2014, the Company raised proceeds of $147.0 million through the issuance of 12.4 million common shares at an average price of $11.84 per common share. Details of the foregoing are set out in note 11 of the consolidated interim financial statements. Subsequent to the quarter ended June 30, 2015, the Company raised gross proceeds of $90.0 million pursuant to a bought deal short-form prospectus offering and non-brokered private placement offering. Refer to additional information under the heading entitled *Subsequent Events*.

The Company has a revolving committed term Credit Facility with a syndicate of financial institutions, on which, Kelt had drawn $224.2 million at June 30, 2015. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed.

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

WORKING CAPITAL

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at June 30, 2015, the Company's working capital deficit of $25.8 million combined with outstanding bank debt of $224.2 million, represented 83% of the authorized borrowing amount available under the Credit Facility of $300.0 million.

The Company's accounts receivable consists primarily of accrued revenue and joint venture receivables. The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas. This occurs on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. Kelt monitors its counterparty credit positions to mitigate any potential credit losses. To the extent that the Company has joint venture partners in its activities, it must collect the partners' share of capital expenditures and operating expenses on a monthly basis. Exceptions are in the event that the partners' share of a capital project is a significant amount. In this case, Kelt will collect such amounts from its partners in advance of expenditures taking place in accordance with standard industry operating procedures. At June 30, 2015, approximately 86% of accounts receivable are current. The balance of accounts receivable outstanding for more than 90 days is approximately $2.1 million and relates primarily to receivables from joint venture partners. Management has reviewed past due accounts and expects the balances to be fully collectible, except for approximately $0.1 million of accounts receivable which are provided for in the allowance for doubtful accounts.

Accounts payable and accrued liabilities total $54.6 million as at June 30, 2015, of which approximately $10.8 million is payable and $43.8 million is accrued. Accrued liabilities include approximately $13.1 million of estimated capital expenditures related to the Company's capital program. Invoices are processed within the Company's normal payment period, which is typically 30 to 60 days.

LIQUIDITY

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial obligations. The Company's financial liabilities are comprised of accounts payable, derivative financial instruments and bank debt. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. Kelt targets a debt to trailing funds from operations ratio of less than 2.0 times. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. Kelt actively manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of reducing capital investment levels. In addition, the Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. As a result of severely depressed commodity prices during the first six months of 2015, Kelt's trailing debt to funds from operations ratio as at June 30, 2015 was 4.3 times (net debt of $250.1 million divided by annualized funds from operations for the quarter ending June 30, 2015 of $14.7 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). In June 2015, in light of potential acquisition opportunities in the current energy business environment, as well as encouraging results of well performance in the Inga-Fireweed British Columbia core area, the Company increased the capital expenditure budget to $185.0 million (excluding the acquisition of Artek). The Company spent $106.5 million or 58% of this budget during the six months ended June 30, 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. Subsequent to the quarter, on July 7, 2015, Kelt completed a $90.0 million equity financing and used the net proceeds of the financing to reduce the Company's indebtedness. The Company forecasts bank debt, net of working capital, to be 2.3 times forecast funds from operations as at December 31, 2015. Refer to additional information under the heading of *2015 Guidance* as well as advisories regarding forward looking statements.

As at June 30, 2015, the Company had drawn $224.2 million on its $300.0 million revolving committed term Credit Facility. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed.

Repayments of principal are not required provided that the borrowings under the Credit Facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Company is not subject to any financial covenants under the Credit Facility and as at June 30, 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 June 30, 2015 there were 158.4 million common shares issued and outstanding (as at August 7, 2015, there were 168.6 million common shares outstanding). There are no preferred shares issued or outstanding.

As at June 30, 2015, officers, directors, and employees have been granted options to purchase 5.0 million common shares of the Company at an average exercise price of $8.36 per common share. In addition, there are 1.3 million RSUs outstanding. Options and RSUs outstanding at June 30, 2015 represented 4.0% of total common shares outstanding. Additional information regarding the Company's stock options and RSUs is included in note 11 of the consolidated interim financial statements.

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
FX swap	US$3,000,000 per month	Bank of Canada noon rate	CA$/US$ 1.2580	July 1, 2015 to December 31, 2015	**136**
Interest Rate Swap	$100,000,000	CDOR	0.925%	July 1, 2015 to June 30, 2017	**(149)**
Commodity Swap	15,000 mmbtu/d	Nymex Henry Hub AECO 5A	NYMEX minus US$0.680/mmbtu	August 1, 2015 to December 31, 2015	**85**
Net derivative financial instrument asset					**72**

Subsequent to the quarter ended June 30, 2015, the Company entered into another commodity swap contract, fixing the NYMEX-AECO basis differential at US$0.57/mmbtu on an additional 15,000 mmbtu/d, resulting in an average differential of US$0.625/mmbtu on 30,000 mmbtu/d of natural gas from August to December of 2015.

The fair value of the currency exchange contract is sensitive to changes in foreign exchange rates. If the Canadian/US dollar exchange rate increases (decreases) by CA$0.05, the fair market value of the contract would decrease (increase) by approximately $0.9 million.

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

The fair value of the commodity swap contract is sensitive to changes in the NYMEX-AECO basis differential. If the differential increases (decreases) by US$0.05, the fair market value of the contract would increase (decrease) by approximately $0.1 million.

CONTRACTUAL OBLIGATIONS

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

(CA$ thousands)	2015	2016	2017	2018	2019	Thereafter
Operating lease – office buildings	608	1,235	1,257	497	114	19
Operating lease – vehicles	120	193	108	17	-	-
Flow-through shares	18,900	-	-	-	-	-
Firm transportation commitments	3,834	11,006	8,446	3,182	1,729	21
Total annual commitments	**23,462**	**12,434**	**9,811**	**3,696**	**1,843**	**40**

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

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 six months of 2015, the Company incurred $0.4 million (2014 – $0.2 million) in legal fees and disbursements, of which, less than $0.1 million is payable at June 30, 2015 ($0.1 million at December 31, 2014). The Company expects to continue using the services of this law firm from time to time.

OFF-BALANCE SHEET TRANSACTIONS

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

SUBSEQUENT EVENTS

On July 7, 2015, the Company raised gross proceeds of $90.0 million pursuant to a bought deal public offering and a non-brokered private placement. The bought deal public offering was led by a syndicate of underwriters by way of a short-form prospectus, pursuant to which the Company issued 9.775 million common shares of Kelt (which includes the exercise in full of the over-allotment option to purchase 1.275 million common shares) at a price of $8.85 per common share. In addition, Kelt issued 0.4 million common shares on a non-brokered basis to certain directors and officers of the Company and their associates at a price of $8.85 per share. Proceeds from the short-form prospectus offering and the non-brokered private placement were initially used to pay down existing credit facilities, and will be used to partially finance Kelt's 2015 capital expenditure program and for general working capital purposes.

SUMMARY OF QUARTERLY RESULTS

(CA$ thousands, except as otherwise indicated)	**Q2 2015**	Q1 2015	Q4 2014	Q3 2014
Revenue, before royalties and financial instruments	**52,131**	39,383	54,396	61,136
Funds from operations	**14,701**	13,980	29,668	31,984
Per share – basic ($/common share)	**0.10**	0.11	0.23	0.25
Per share – diluted ($/common share)	**0.09**	0.11	0.23	0.25
Profit (loss) and comprehensive income (loss)	**(7,407)**	(16,524)	1,256	1,185
Per share – basic ($/common share)	**(0.05)**	(0.13)	0.01	0.01
Per share – diluted ($/common share)	**(0.05)**	(0.13)	0.01	0.01
Total assets	**1,366,676**	966,613	908,709	820,241
Bank debt	**224,221**	105,117	46,929	-
Working capital deficiency (surplus)	**25,831**	33,633	57,501	37,219
Shareholders' equity	**872,647**	635,708	619,639	614,384
Average daily production (BOE/d)	**19,473**	16,005	15,559	13,872
Average realized price, after financial instruments ($/BOE)	**29.57**	28.61	39.96	47.49
Operating netback ($/BOE)	**10.23**	10.78	21.55	25.81
Netback as a percentage of revenue	**35%**	38%	54%	54%

	Q2 2014	Q1 2013	Q4 2013	Q3 2013
Revenue, before royalties and financial instruments	51,366	47,793	18,543	12,388
Funds from operations	27,973	26,112	9,629	5,473
Per share – basic ($/common share)	0.23	0.24	0.09	0.06
Per share – diluted ($/common share)	0.22	0.23	0.09	0.06
Profit (loss) and comprehensive income (loss)	3,336	4,851	(1,838)	(2,400)
Per share – basic ($/common share)	0.03	0.04	(0.02)	(0.03)
Per share – diluted ($/common share)	0.03	0.04	(0.02)	(0.03)
Total assets	669,098	666,257	485,201	333,832
Bank debt	-	-	-	-
Working capital deficiency (surplus)	(116,488)	(123,150)	(20,500)	(123,774)
Shareholders' equity	544,735	539,410	392,872	294,820
Average daily production (BOE/d)	11,381	10,143	5,739	4,636
Average realized price, after financial instruments ($/BOE)	48.23	50.99	34.74	28.17
Operating netback ($/BOE)	27.63	29.40	18.67	12.94
Netback as a percentage of revenue	57%	58%	54%	46%

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 640 in late June 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 219 in late June 2015, after peaking at about 1,600 in September 2008. Despite record high gas supply in the U.S. primarily due to higher productive shale wells, Kelt expects U.S. supply will be negatively affected as declines on new production sets in. In addition, with a declining crude oil rig count in the U.S., associated gas production will also be negatively affected. Kelt believes these factors bode well for natural gas prices in 2016.

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

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 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. In order to capitalize on opportunities in the current energy business environment, Kelt recently increased its 2015 planned capital spending on drilling and completions, facilities, equipment and pipelines as well as land, seismic and property acquisitions.

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

(CA$ millions, except as otherwise indicated)	**Current Guidance**	Previous Guidance	% Change
Average Production			
Oil (bbls/d)	**5,500**	6,250	-12%
NGLs (bbls/d)	**1,740**	2,000	-13%
Gas (mmcf/d)	**73.56**	70.50	4%
Combined (BOE/d)	**19,500**	20,000	-3%
Production per million common shares (BOE/d)	**126**	137	-8%
Oil / NGLs / Gas production weighting	**28%/9%/63%**	31%/10%/59%	-
Forecasted Average Commodity Prices			
WTI oil price (USD/bbl)	**56.50**	59.50	-5%
NYMEX natural gas price (USD/MMBTU)	**2.95**	3.25	-9%
AECO natural gas price ($/GJ)	**2.75**	3.10	-11%
Forecasted Average Exchange Rate (US$/CA$)	**0.786**	0.842	-7%
Capital Expenditures			
Drilling & completions	**106.8**	88.0	21%
Facilities, pipeline & well equipment	**44.0**	30.0	47%
Land, seismic & property "tuck-in" acquisitions	**36.0**	32.0	13%
Corporate Acquisition	**313.2**	307.0	2%
Total Capital Expenditures	**500.0**	457.0	9%
Funds from operations	**83.0**	114.4	-27%
Per share, diluted	**0.53**	0.75	-29%
Bank debt, net of working capital, at year-end	**187.5**	198.0	-5%
Debt/Trailing funds from operations ratio(1)	**2.3 x**	1.7 x	35%
Weighted average common shares outstanding (MM)	**154.8**	149.9	3%
Common shares issued & outstanding (MM)	**168.6**	158.4	6%

(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 August 7, 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
August 7, 2015

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

(CA$ thousands)	[Notes]	**June 30, 2015**	December 31, 2014
ASSETS			
Current assets			
Cash and cash equivalents		**1,325**	1,049
Accounts receivable and accrued revenue	[13]	**27,487**	35,092
Prepaid expenses and deposits		**2,307**	2,839
Derivative financial instruments	[13]	**221**	1,745
Total current assets		**31,340**	40,725
Exploration and evaluation assets	[6]	**130,754**	79,294
Property, plant and equipment	[7]	**1,186,376**	770,484
Goodwill	[8]	**18,206**	18,206
Total assets		**1,366,676**	908,709
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**54,638**	96,776
Derivative financial instruments	[13]	**149**	-
Deferred premium on flow-through shares	[11]	**1,626**	692
Decommissioning obligations	[10]	**758**	758
Total current liabilities		**57,171**	98,226
Bank debt	[9]	**224,221**	46,929
Decommissioning obligations	[10]	**134,702**	94,033
Deferred income tax liability	[12]	**77,935**	49,882
Total liabilities		**494,029**	289,070
SHAREHOLDERS' EQUITY			
Shareholders' capital	[11]	**934,242**	657,102
Reserve from common control transaction		**(57,668)**	(57,668)
Contributed surplus		**14,491**	14,692
Retained earnings (deficit)		**(18,418)**	5,513
Total shareholders' equity		**872,647**	619,639
Total liabilities and shareholders' equity		**1,366,676**	908,709

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

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended June 30		Six months ended June 30	
(CA$ thousands, except per share amounts)	[Notes]	**2015**	2014	**2015**	2014
Revenue					
Oil and gas sales		**52,131**	51,366	**91,514**	99,159
Royalties		**(5,128)**	(6,726)	**(9,871)**	(12,674)
		47,003	44,640	**81,643**	86,485
Expenses					
Production		**24,070**	12,699	**40,856**	24,038
Transportation		**5,055**	1,913	**9,206**	4,336
Financing	[14]	**2,685**	640	**4,100**	1,070
General and administrative		**1,669**	1,039	**2,342**	1,922
Share based compensation	[11]	**1,874**	1,989	**4,380**	4,066
Depletion and depreciation		**37,705**	17,578	**65,738**	31,855
Exploration and evaluation	[6]	**947**	101	**1,424**	186
		74,005	35,959	**128,046**	67,473
Profit (loss) before other items and taxes		**(27,002)**	8,681	**(46,403)**	19,012
Other income		**212**	625	**212**	837
Transaction costs	[5]	**(2,305)**	(17)	**(2,396)**	(45)
Premium on flow-through shares	[11]	**359**	1,622	**1,938**	2,803
Gain (loss) on derivative financial instruments	[13]	**619**	(1,092)	**408**	(4,506)
Gain on acquisition	[5]	**18,474**	-	**18,474**	-
Gain on sale of assets		**190**	-	**190**	-
Profit (loss) before taxes		**(9,453)**	9,819	**(27,577)**	18,101
Deferred income tax expense (recovery)	[12]	**(2,046)**	6,483	**(3,646)**	9,914
Profit (loss) and comprehensive income (loss)		**(7,407)**	3,336	**(23,931)**	8,187
Profit (loss) per common share					
Basic	[11]	**(0.05)**	0.03	**(0.17)**	0.07
Diluted	[11]	**(0.05)**	0.03	**(0.17)**	0.07

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

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

(CA$ thousands)	[Notes]	Shareholders' capital	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2014		**657,102**	**(57,668)**	**14,692**	**5,513**	**619,639**
Profit (loss) and						
comprehensive income (loss)					**(23,931)**	**(23,931)**
Common shares issued:						
Private placements	[11]	**33,380**				**33,380**
Less: deferred premium on	[11]					
flow-through shares		**(2,872)**				**(2,872)**
Pursuant to corporate acquisition	[5]	**242,641**				**242,641**
Share issue costs, net of tax	[11]	**(590)**				**(590)**
Vesting of restricted share units	[11]	**4,581**		**(4,581)**		**-**
Share based compensation	[11]			**4,380**		**4,380**
Balance at June 30, 2015		**934,242**	**(57,668)**	**14,491**	**(18,418)**	**872,647**
Balance at December 31, 2013		449,876	(57,668)	5,779	(5,115)	392,872
Profit (loss) and						
comprehensive income (loss)					8,187	8,187
Common shares issued:						
Private placements	[11]	146,986				146,986
Less: deferred premium on	[11]					
flow-through shares		(3,030)				(3,030)
Share issue costs, net of tax	[11]	(4,476)				(4,476)
Exercise of stock options	[11]	166		(36)		130
Share based compensation	[11]			4,066		4,066
Balance at June 30, 2014		589,522	(57,668)	9,809	3,072	544,735

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

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

(CA$ thousands)	[Notes]	Three months ended June 30 **2015**	2014	Six months ended June 30 **2015**	2014
Operating activities					
Profit (loss) and comprehensive income (loss)		**(7,407)**	3,336	**(23,931)**	8,187
Items not affecting cash:					
Accretion of decommissioning obligations	[10,14]	**707**	410	**1,249**	789
Share based compensation		**1,874**	1,989	**4,380**	4,066
Depletion and depreciation		**37,705**	17,578	**65,738**	31,855
Exploration and evaluation		**947**	101	**1,424**	186
Premium on flow-through shares		**(359)**	(1,622)	**(1,938)**	(2,803)
Unrealized loss (gain) on derivative financial instruments	[13]	**(361)**	(319)	**1,673**	1,846
Gain on acquisition	[5]	**(18,474)**	-	**(18,474)**	-
Gain on sale of assets		**(190)**	-	**(190)**	-
Deferred income tax expense (recovery)		**(2,046)**	6,483	**(3,646)**	9,914
Settlement of decommissioning obligations	[10]	**(163)**	-	**(163)**	-
Change in non-cash operating working capital	[16]	**12,706**	2,083	**11,174**	(2,729)
Cash provided by operating activities		**24,939**	30,039	**37,296**	51,311
Financing activities					
Increase in bank debt	[9]	**119,104**	-	**177,292**	-
Issue of common shares	[11]	**-**	-	**33,380**	146,986
Proceeds on exercise of stock options	[11]	**-**	-	**-**	130
Share issue costs		**(243)**	-	**(805)**	(5,968)
Cash provided by financing activities		**118,861**	-	**209,867**	141,148
Investing activities					
Exploration and evaluation assets		**(1,752)**	(10,009)	**(16,539)**	(21,128)
Property, plant and equipment		**(17,361)**	(24,954)	**(75,007)**	(69,900)
Property acquisitions	[5]	**(9,674)**	(1,596)	**(14,941)**	(6,099)
Property dispositions	[4]	**-**	-	**-**	19,635
Corporate acquisition	[5]	**(95,839)**	-	**(95,839)**	-
Change in non-cash investing working capital	[16]	**(18,538)**	(15,251)	**(44,561)**	(313)
Cash used in investing activities		**(143,164)**	(51,810)	**(246,887)**	(77,805)
Net change in cash and cash equivalents		**636**	(21,771)	**276**	114,654
Cash and cash equivalents, beginning of period		**689**	168,440	**1,049**	32,015
Cash and cash equivalents, end of period		**1,325**	146,669	**1,325**	146,669

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

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

1. DESCRIPTION OF THE BUSINESS

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

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

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

2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements were approved and authorized for issue by the Company's Board of Directors on August 7, 2015.

a) Statement of compliance

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

b) Basis of measurement

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

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

c) Significant judgments and estimates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Accounting standards issued but not yet effective

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

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

4. PROPERTY DISPOSITION

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

5. ACQUISITIONS

a) Corporate Acquisitions

Acquisition of Artek Exploration Ltd.

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

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

Number of Kelt common shares issued (thousands)	26,900
Fair value of Kelt common shares ($/share)(1)	$9.02
Fair value of common share consideration(1)	242,641
Settlement of pre-existing relationship	(4,125)
Net consideration	**238,516**
Net working capital, including bank debt	(99,350)
Exploration and evaluation assets	53,982
Property, plant and equipment	346,238
Decommissioning obligations	(11,966)
Deferred income tax liability	(31,914)
Fair value of net assets acquired(2)	**256,990**
Gain on acquisition(2)	**18,474**

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

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

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

The net working capital deficit includes $7.5 million of accounts receivable and accrued revenue, $0.4 million of deposits, $11.4 million of accounts payable and accrued liabilities and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid and terminated by Kelt at closing using borrowings available under Kelt's Credit Facility.

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

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

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the Artek Acquisition on April 16, 2015. Specifically, Kelt's profit (loss) for the period ended June 30, 2015 includes approximately $8.5 million of revenue and $2.4 million of operating income generated from the acquired interest in the properties subsequent to closing. If the acquisition had occurred on January 1, 2015, pro-forma revenue and operating income is estimated to be approximately $22.0 million and $3.9 million, respectively, for the six month period ended June 30, 2015. Operating income is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

Acquisition of Capio Exploration Ltd.

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

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

The table below summarizes the allocation of the purchase price:

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

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

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

b) Property acquisitions

During the six month period ended June 30, 2015, the Company completed several minor acquisitions of petroleum and natural gas assets for aggregate cash consideration of approximately $14.9 million. The property acquisitions have been accounted for as business combinations using the acquisition method, whereby the net assets acquired and the liabilities assumed are recorded at fair value. The assets acquired are a complimentary fit with Kelt's existing core assets located at Karr, Spirit River, Pouce Coupe, and Fireweed.

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

	June 30, 2015	December 31, 2014
Exploration and evaluation assets	**261**	8,368
Property, plant and equipment	**15,232**	23,489
Decommissioning obligations	**(552)**	(7,143)
Fair value of net assets acquired	**14,941**	24,714
Cash consideration, after closing adjustments	**14,941**	24,714

6. EXPLORATION AND EVALUATION ASSETS

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

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

	June 30, 2015	December 31, 2014
Balance, beginning of period	**79,294**	40,564
Additions	**16,539**	101,524
Property acquisitions [note 5]	**261**	8,368
Corporate acquisition [note 5]	**53,982**	10,832
Transfers to property, plant and equipment	**(17,898)**	(81,617)
Expired mineral leases	**(1,424)**	(377)
Balance, end of period	**130,754**	79,294

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	June 30, 2015	December 31, 2014
Development and production ("D&P") assets	**1,185,729**	769,951
Corporate assets	**647**	533
Total net carrying value of property, plant and equipment	**1,186,376**	770,484

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2013	421,849	414	422,263
Additions	149,087	636	149,723
Property acquisitions [note 5]	23,489	-	23,489
Corporate acquisition [note 5]	184,757	-	184,757
Dispositions	-	(22)	(22)
Decommissioning costs	38,608	-	38,608
Transfers from E&E	81,617	-	81,617
Balance at December 31, 2014	**899,407**	**1,028**	**900,435**
Additions	**74,477**	**530**	**75,007**
Property acquisitions [note 5]	**15,232**	**-**	**15,232**
Corporate acquisition [note 5]	**346,238**	**-**	**346,238**
Decommissioning costs	**27,255**	**-**	**27,255**
Transfers from E&E	**17,898**	**-**	**17,898**
Balance at June 30, 2015	**1,380,507**	**1,558**	**1,382,065**

Accumulated depletion and depreciation	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2013	45,450	105	45,555
Depletion and depreciation expense	84,006	412	84,418
Dispositions	-	(22)	(22)
Balance at December 31, 2014	**129,456**	**495**	**129,951**
Depletion and depreciation expense	**65,322**	**416**	**65,738**
Balance at June 30, 2015	**194,778**	**911**	**195,689**

There were no borrowing costs capitalized in the current or prior period, as the Company did not have any qualifying assets.

Future capital costs required to develop proved reserves in the amount of $563.1 million (December 31, 2014 – $382.8 million) are included in the depletion calculation for development and production assets.

8. GOODWILL

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

9. BANK DEBT

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. On April 16, 2015, concurrent with completion of the Artek Acquisition, the Company amended and restated its Credit Facility, 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. 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.

	June 30, 2015	December 31, 2014
Bank loan	**-**	47,200
Bankers' acceptances	**225,000**	-
Unamortized financing fees	**(779)**	(271)
Bank debt	**224,221**	46,929

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

10. DECOMMISSIONING OBLIGATIONS

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

	June 30, 2015	December 31, 2014
Balance, beginning of period	**94,791**	48,169
Obligations incurred	**328**	3,259
Obligations acquired [note 5]	**12,518**	7,542
Obligations disposed [note 4]	**(190)**	(1,000)
Obligations settled	**(163)**	(229)
Changes in discount rate(1)	**26,197**	35,095
Revisions to estimates	**730**	254
Accretion expense	**1,249**	1,701
Balance, end of period	**135,460**	94,791
Current portion of decommissioning obligations	**(758)**	(758)
Long-term portion of decommissioning obligations	**134,702**	94,033

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

The key assumptions on which the carrying amount of the decommissioning obligations is based, include a risk-free rate of 2.3% (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 June 30, 2015, the undiscounted amount of the estimated cash flows required to settle the obligation is $148.5 million (December 31, 2014 – $105.9 million), and is expected to be incurred over the next 50 years.

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

11. SHARE CAPITAL

Authorized

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

Issued and outstanding

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

	Number of Shares (000's)	Amount ($ thousands)
Balance at December 31, 2013	110,026	449,876
Issued for cash through 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)**
Issued pursuant to corporate acquisition [note 5]	**26,900**	**242,641**
Released upon vesting of restricted share units	**708**	**4,581**
Share issue costs, net of deferred income taxes ($215)	**-**	**(590)**
Balance at June 30, 2015	**158,423**	**934,242**

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

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 June 30, 2015, the Company had incurred $14.5 million of Qualifying Expenditures, leaving $18.9 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 June 30, 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.

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	**180**	**8.21**
Forfeited	**(68)**	**9.41**
Balance at June 30, 2015	**5,039**	**8.36**

(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:

	Six months ended June 30	
	2015	2014
Risk free interest rate	**0.6%**	1.3%
Expected life (years)	**3.0**	3.4
Expected volatility[(1)]	**39.9%**	33.7%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**3.1%**	0.1%
Fair value of options granted during the year ($/share)	**2.26**	3.19

(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 June 30, 2015:

Range of exercise prices per common share	Number of options outstanding (000's)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000's)	Weighted average exercise price for options exercisable ($/share)
$5.00 to $10.00	3,828	3.5	7.03	1,466	6.71
$10.01 to $15.00	1,151	3.8	12.42	375	12.41
$15.01 to $20.00	60	4.0	15.40	20	15.40
Total	**5,039**	**3.5**	**8.36**	**1,861**	**7.96**

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	**224**
Released upon vesting	**(708)**
Forfeited	**(23)**
Balance at June 30, 2015	**1,255**

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 June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Stock options	**1,004**	922	**2,335**	1,828
Restricted share units	**870**	1,067	**2,045**	2,238
Total share based compensation expense	**1,874**	1,989	**4,380**	4,066

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 June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Weighted avg. common shares outstanding, basic	**153,990**	122,456	**141,163**	116,755
Effect of stock options and RSUs	**1,310**	2,272	**1,049**	2,077
Weighted avg. common shares outstanding, diluted	**155,300**	124,728	**142,212**	118,832

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

12. INCOME TAXES

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Current income tax expense	**-**	-	**-**	-
Deferred income tax expense (recovery)	**(2,046)**	6,483	**(3,646)**	9,914
Total income tax expense (recovery)	**(2,046)**	6,483	**(3,646)**	9,914

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

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

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

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 June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Profit (loss) before income taxes	**(9,453)**	9,819	**(27,577)**	18,101
Canadian statutory tax rate	**26.0%**	25.0%	**26.0%**	25.0%
Expected income tax expense (recovery)	**(2,458)**	2,455	**(7,170)**	4,525
Increase (decrease) resulting from:				
Non-deductible expenses[(1)]	**1,110**	500	**1,764**	1,021
Recognition of unrecognized deferred tax asset	**(512)**	(562)	**(990)**	(1,035)
Qualifying expenditures on flow-through shares	**1,358**	4,496	**4,450**	6,104
Premium on flow-through shares	**(108)**	(406)	**(504)**	(701)
Change in tax rates	**4,516**	-	**4,697**	-
True-up of tax pools	**(1,149)**	-	**(1,090)**	-
Gain on acquisition	**(4,803)**	-	**(4,803)**	-
Deferred income tax expense (recovery)	**(2,046)**	6,483	**(3,646)**	9,914

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

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 June 30, 2015**
Derivative financial instruments	(438)	419	-	**(19)**
PP&E and E&E	(78,194)	(19,626)	(57,714)	**(155,534)**
Decommissioning obligations	23,786	9,493	3,041	**36,320**
Share and debt issue costs	3,283	(347)	1,318	**4,254**
Reserve from common control transaction	(10,430)	298	-	**(10,132)**
Non-capital losses[(2)]	12,111	13,409	21,656	**47,176**
	(49,882)	3,646	(31,699)	**(77,935)**

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)

(1) Comprehensive income has been abbreviated as "CI"
(2) The Company's non-capital losses expire in years 2024 to 2035.

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 liability associated with derivative financial instruments is expected to reverse over the next twelve month period as it relates to short-term risk management contracts. The Company also expects approximately $1.4 million of deferred tax assets associated with share and debt issue costs to reverse in 2015. 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 June 30, 2015, there are no offsetting derivative financial contracts.

Fair value measurements

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

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

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

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

	Level 1	Level 2	Level 3
Financial assets			
Derivative financial instruments	-	221	-
Financial liabilities			
Derivative financial instruments	-	149	-

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	**June 30, 2015**	December 31, 2014
Joint venture partners	**7,157**	11,972
Oil and gas marketers	**17,294**	15,488
GST input tax credits	**2,625**	5,461
Risk management contracts	**64**	1,681
Other	**347**	490
Accounts receivable & accrued revenue	**27,487**	35,092

During the six month period ended June 30, 2015, sales to three external customers each individually represented more than 10% of total revenue. Sales to these customers account for approximately 30%, 24%, and 11% of total revenue, respectively. During the previous six month period ended June 30, 2014, sales to three external customers accounted for approximately 59%, 16% and 15% of total revenue, respectively.

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

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

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

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

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

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

Accounts receivable & accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at June 30, 2015	**23,666**	**1,137**	**631**	**2,053**	**27,487**
Balance at December 31, 2014	31,071	2,499	208	1,314	35,092

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Management has reviewed past due accounts receivable balances as at June 30, 2015 and expects the accounts to be fully collectible, except for approximately $0.1 million of accounts receivable which are provided for in the allowance for doubtful accounts.

Liquidity Risk

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

As at June 30, 2015, the Company had a net working capital deficit of $25.8 million. The capital intensive nature of Kelt's activities may create a working capital deficiency position during periods with high levels of capital investment. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. As discussed further under the Capital Management section to follow, Kelt targets a relatively low debt to trailing funds from operations ratio. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. The Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

As at June 30, 2015, the Company had drawn $224.2 million on its $300.0 million revolving committed term Credit Facility. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. Repayments of principal are not required provided that the borrowings under the Credit Facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Company is not subject to any financial covenants under the Credit Facility and as at June 30, 2015, Kelt is in compliance with all other covenants.

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

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	54,638	-	-	54,638
Derivative financial instruments	149	-	-	149
Bank debt and estimated interest(1)	7,650	231,351	-	239,001
Total	**62,437**	**231,351**	**-**	**293,788**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate of 3.4% for the quarter ended June 30, 2015, applied to the principal balance outstanding as at that date. Principal repayment of the Company's revolving Credit Facility is assumed on April 29, 2017.

Market Risks

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

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

Commodity price risk

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

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

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

Commodity	Notional Volume	Pricing Point	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Natural Gas	15,000 mmbtu/d	Nymex Henry Hub AECO 5A	NYMEX minus US$0.680/mmbtu	August 1, 2015 to December 31, 2015	**85**

The fair value of the commodity swap contract is sensitive to changes in the NYMEX-AECO basis differential. If the differential increases (decreases) by US$0.05, the fair market value of the contract would increase (decrease) by approximately $0.1 million.

Subsequent to the quarter ended June 30, 2015, the Company entered into another commodity swap contract, fixing the NYMEX-AECO basis differential at US$0.57/mmbtu on an additional 15,000 mmbtu/d, resulting in an average differential of US$0.625/mmbtu on 30,000 mmbtu/d of natural gas from August to December of 2015.

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 $0.7 million for the six month period ended June 30, 2015, based on the Company's average debt balance outstanding of $143.1 million in the period.

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

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Interest Rate Swap	$100,000,000	CDOR	0.925%	July 1, 2015 to June 30, 2017	**(149)**

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

Foreign exchange rate risk

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

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 June 30, 2015.

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

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Foreign exchange swap	US$3,000,000 per month	Bank of Canada noon rate	CA$/US$ 1.2580	July 1, 2015 to December 31, 2015	**136**

The fair value of the currency exchange contract is sensitive to changes in foreign exchange rates. If the Canadian/US dollar exchange rate increases (decreases) by CA$0.05, the fair market value of the contract would decrease (increase) by approximately $0.9 million.

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Realized gain (loss)	**258**	(1,411)	**2,081**	(2,660)
Unrealized gain (loss)	**361**	319	**(1,673)**	(1,846)
Gain (loss) on derivative financial instruments	**619**	(1,092)	**408**	(4,506)

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.

	June 30, 2015	December 31, 2014
Bank debt	**224,221**	46,929
Working capital deficiency	**25,831**	57,501
Net debt	**250,052**	104,430
Trailing funds from operations(1)(2)	**58,804**	118,656
Debt to trailing funds from operations ratio	**4.3**	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 six months of 2015, Kelt's trailing debt to funds from operations ratio as at June 30, 2015 was 4.3 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 further in note 18, Kelt completed a $90.0 million equity financing subsequent to June 30, 2015, and used the net proceeds of the financing to reduce the Company's indebtedness.

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

14. FINANCING EXPENSES

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Interest and fees on bank debt	**1,978**	230	**2,851**	281
Accretion of decommissioning obligations [note 10]	**707**	410	**1,249**	789
Financing expense	**2,685**	640	**4,100**	1,070

15. COMMITMENTS

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

(CA$ thousands)	2015	2016	2017	2018	2019	Thereafter
Operating lease – office buildings	608	1,235	1,257	497	114	19
Operating lease – vehicles	120	193	108	17	-	-
Flow-through shares	18,900	-	-	-	-	-
Firm transportation commitments	3,834	11,006	8,446	3,182	1,729	21
Total annual commitments	**23,462**	**12,434**	**9,811**	**3,696**	**1,843**	**40**

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Accounts receivable and accrued revenue	**18,868**	(1,454)	**21,065**	(13,093)
Prepaid expenses and deposits	**803**	304	**953**	(6)
Accounts payable and accrued liabilities	**(25,503)**	(12,018)	**(55,405)**	10,057
Change in non-cash working capital	**(5,832)**	(13,168)	**(33,387)**	(3,042)
Relating to:				
Operating activities	**12,706**	2,083	**11,174**	(2,729)
Investing activities	**(18,538)**	(15,251)	**(44,561)**	(313)
Change in non-cash working capital	**(5,832)**	(13,168)	**(33,387)**	(3,042)

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

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Interest and standby fees on bank debt	**1,928**	63	**2,831**	109
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 six months ended June 30, 2015, the Company incurred $0.4 million (2014 – $0.2 million) in legal fees and disbursements, of which, less than $0.1 million is payable at June 30, 2015 ($0.1 million at December 31, 2014). The Company expects to continue using the services of this law firm from time to time.

18. SUBSEQUENT EVENTS

On July 7, 2015, the Company raised gross proceeds of $90.0 million pursuant to a bought deal public offering and a non-brokered private placement. The bought deal public offering was led by a syndicate of underwriters by way of a short-form prospectus, pursuant to which the Company issued 9.775 million common shares of Kelt (which includes the exercise in full of the over-allotment option to purchase 1.275 million common shares) at a price of $8.85 per common share. In addition, Kelt issued 0.4 million common shares on a non-brokered basis to certain directors and officers of the Company and their associates at a price of $8.85 per share. Proceeds from the short-form prospectus offering and the non-brokered private placement were initially used to pay down existing credit facilities, and will be used to partially finance Kelt's 2015 capital expenditure program and for general working capital purposes.

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

HEAD OFFICE

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Calgary, Alberta T2P 3H2

AUDITORS

PricewaterhouseCoopers LLP
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Calgary, Alberta T2P 5L3

EVALUATION ENGINEERS

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

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common Shares “KEL”

kelt exploration

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