AUDITED ANNUAL FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED

DECEMBER 31, 2014

MANAGEMENT'S REPORT

The accompanying financial statements of Kelt Exploration Ltd. (the "Company") are the responsibility of management. The financial statements have been prepared by management in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain estimates that reflect management's best judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management has the overall responsibility for internal controls and maintains a system of internal controls over financial reporting that provides reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. This Committee, consisting of non-management directors, meets with management and independent auditors to ensure that each group is properly discharging its responsibilities and to discuss adequacy of internal controls, accounting policies and financial reporting matters. The Audit Committee has reviewed the financial statements and has reported thereon to the Board of Directors. The Board of Directors has approved the financial statements and authorized them for issuance to shareholders.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has been engaged, as approved by the shareholders of the Company, to provide an independent audit opinion on the Company's financial statements. Their report, contained herein, outlines the nature of their audit and expresses an unqualified opinion on the financial statements.

[signed]

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

[signed]

Sadiq H. Lalani
Vice President, Finance, and Chief Financial Officer
March 9, 2015

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kelt Exploration Ltd.

We have audited the accompanying financial statements of Kelt Exploration Ltd., which comprise the statements of financial position as at December 31, 2014 and December 31, 2013 and the statements of profit (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kelt Exploration Ltd. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 9, 2015

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KELT EXPLORATION LTD.
STATEMENT OF FINANCIAL POSITION

(CA$ thousands)	[Notes]	**December 31, 2014**	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents		**1,049**	32,015
Accounts receivable and accrued revenue	[14]	**35,092**	13,082
Prepaid expenses and deposits		**2,839**	1,240
Derivative financial instruments	[14]	**1,745**	-
Assets held for sale	[6]	**-**	19,635
Total current assets		**40,725**	65,972
Deferred income tax asset	[13]	**-**	1,957
Exploration and evaluation assets	[7]	**79,294**	40,564
Property, plant and equipment	[8]	**770,484**	376,708
Goodwill	[9]	**18,206**	-
Total assets		**908,709**	485,201
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**96,776**	43,447
Derivative financial instruments	[14]	**-**	532
Deferred premium on flow-through shares	[12]	**692**	1,181
Decommissioning obligations	[11]	**758**	312
Total current liabilities		**98,226**	45,472
Bank debt	[10]	**46,929**	-
Decommissioning obligations	[11]	**94,033**	46,857
Deferred income tax liability	[13]	**49,882**	-
Total liabilities		**289,070**	92,329
SHAREHOLDERS' EQUITY			
Shareholders' capital	[12]	**657,102**	449,876
Reserve from common control transaction	[4]	**(57,668)**	(57,668)
Contributed surplus		**14,692**	5,779
Retained earnings (deficit)		**5,513**	(5,115)
Total shareholders' equity		**619,639**	392,872
Total liabilities and shareholders' equity		**908,709**	485,201

Acquisitions [5]
Commitments [16]
Subsequent events [19]

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Year ended December 31	
(CA$ thousands, except per share amounts)	[Notes]	**2014**	2013
Revenue			
Oil and gas sales		**214,691**	46,656
Royalties		**(28,433)**	(6,321)
		186,258	40,335
Expenses			
Production		**55,901**	11,358
Transportation		**10,719**	4,090
Financing	[15]	**2,521**	329
General and administrative		**3,631**	1,660
Share based compensation	[12]	**9,033**	5,779
Depletion and depreciation		**84,418**	23,337
Exploration and evaluation	[7]	**377**	114
		166,600	46,667
Profit (loss) before other items and taxes		**19,658**	(6,332)
Interest income		**938**	1,095
Transaction costs	[5,6]	**(234)**	(233)
Premium on flow-through shares	[12]	**4,211**	2,419
Gain (loss) on derivative financial instruments	[14]	**1,889**	(883)
Profit (loss) before taxes		**26,462**	(3,934)
Deferred income tax expense	[13]	**15,834**	1,181
Profit (loss) and comprehensive income (loss)		**10,628**	(5,115)
Profit (loss) per common share			
Basic	[12]	**0.09**	(0.07)
Diluted	[12]	**0.09**	(0.07)

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

KELT EXPLORATION LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(CA$ thousands)	[Notes]	Shareholders' capital	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2013		**449,876**	**(57,668)**	**5,779**	**(5,115)**	**392,872**
Profit (loss) and comprehensive income (loss)					**10,628**	**10,628**
Common shares issued:						**-**
Private placements	[12]	**148,988**				**148,988**
Less: deferred premium on flow-through shares	[12]	**(3,722)**				**(3,722)**
Pursuant to corporate acquisition	[5]	**66,243**				**66,243**
Share issue costs, net of tax	[12]	**(4,694)**				**(4,694)**
Exercise of stock options	[12]	**411**		**(120)**		**291**
Share based compensation	[12]			**9,033**		**9,033**
Balance at December 31, 2014		**657,102**	**(57,668)**	**14,692**	**5,513**	**619,639**

Balance at December 31, 2012		-	-	-	-	-
Profit (loss) and comprehensive income (loss)					(5,115)	(5,115)
Common shares issued, net of costs:						
Pursuant to the Arrangement	[4,12]	141,961	(57,668)			84,293
Private placements	[12]	320,930				320,930
Less: deferred premium on flow-through shares	[12]	(3,600)				(3,600)
Share issue costs, net of tax	[12]	(9,415)				(9,415)
Share based compensation	[12]			5,779		5,779
Balance at December 31, 2013		449,876	(57,668)	5,779	(5,115)	392,872

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

KELT EXPLORATION LTD.
STATEMENT OF CASH FLOWS

		Year ended December 31	
(CA$ thousands)	[Notes]	**2014**	2013
Operating activities			
Profit (loss)		**10,628**	(5,115)
Items not affecting cash:			
Accretion of decommissioning obligations	[11,15]	**1,701**	247
Share based compensation		**9,033**	5,779
Depletion and depreciation		**84,418**	23,337
Exploration and evaluation		**377**	114
Premium on flow-through shares		**(4,211)**	(2,419)
Unrealized (gain) loss on derivative financial instruments	[14]	**(2,277)**	304
Deferred income tax expense		**15,834**	1,181
Cash premium on derivatives		**-**	228
Settlement of decommissioning obligations	[11]	**(229)**	-
Change in non-cash operating working capital	[17]	**(2,883)**	3,235
Cash provided by operating activities		**112,391**	26,891
Financing activities			
Increase in bank debt		**46,929**	-
Issue of common shares	[12]	**148,988**	301,330
Proceeds on exercise of stock options	[12]	**291**	19,600
Share issue costs		**(6,267)**	(12,553)
Cash provided by financing activities		**189,941**	308,377
Investing activities			
Pursuant to the Arrangement	[4]	**-**	(23,247)
Exploration and evaluation assets		**(101,524)**	(46,717)
Property, plant and equipment		**(149,723)**	(49,735)
Property acquisitions	[5]	**(24,714)**	(209,444)
Property dispositions	[6]	**19,635**	-
Corporate acquisition	[5]	**(104,663)**	-
Change in non-cash investing working capital	[17]	**27,691**	25,890
Cash used in investing activities		**(333,298)**	(303,253)
Net change in cash and cash equivalents		**(30,966)**	32,015
Cash and cash equivalents, beginning of period		**32,015**	-
Cash and cash equivalents, end of period		**1,049**	32,015

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

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 as 1705972 Alberta Ltd. and was inactive until February 26, 2013. On October 19, 2012, Articles of Amendment were filed to change the name of the Company to Kelt Exploration Ltd. The head office of Kelt is located at Suite 300, 311 – 6th Avenue S.W., Calgary, Alberta T2P 3H2.

Kelt is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in west central Alberta and northeastern British Columbia. The Company is a single reporting entity and does not have any subsidiaries. Common shares of the Company are listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol "KEL".

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

2. BASIS OF PRESENTATION

a) Statement of compliance

These audited annual financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, such as Kelt, are required to apply such standards.

These audited annual financial statements were approved and authorized for issue by the Company's Board of Directors on March 9, 2015.

b) Basis of measurement

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

These financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 14 of these financial statements.

c) Significant judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are discussed below.

Common control transaction

In connection with the Arrangement and pursuant to the terms of the Conveyance Agreement, the Celtic Assets were transferred from Celtic to Kelt and Kelt assumed certain obligations and liabilities of Celtic. Kelt was a wholly owned subsidiary of Celtic immediately preceding closing of the Arrangement and immediately subsequent to closing, Kelt was controlled by the same shareholders as Celtic; consequently, the entities were under common control at the time the Celtic Assets were transferred. Business combinations involving entities under common control are outside the scope of IFRS 3 *Business Combinations*. IFRS provides no guidance on the accounting for these types of transactions and an entity is required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Management has determined the predecessor values from date of transaction method to be most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without any step up to fair value. The difference between any consideration and the aggregate carrying value of the assets and liabilities is recorded as a reserve from common control transaction in shareholders' equity.

Assets held for sale

The decision to classify a non-current asset or disposal group as held for sale requires judgment to determine if the carrying amount will be recovered through a sale transaction rather than through continuing use. In order to draw this conclusion, management must assert that the asset or disposal group is available for immediate sale in its present condition and believe that it is highly probable that a sale transaction will be completed within one year of designating the asset as held for sale. As more particularly described in note 6 of the financial statements, estimates and assumptions are also required to measure the assets held for sale at their fair value less costs of disposal.

Depletion, depreciation and reserves

The Company calculates depletion based on total proved reserves as determined in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The process of determining reserves is complex. Significant judgments are based on available geological, geophysical, engineering, and economic data. These judgments are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation can be impacted by subjective decisions, new geological or production information and a changing environment. In addition, revisions to reserve estimates can arise from changes in forecast oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion. Reserves are used in measuring the fair value less costs of disposal ("FVLCD") of property, plant and equipment ("PP&E") for impairment calculations and for determining the fair value of PP&E acquired in a business combination. Reserves also impact the Company's assessment of the commercial viability and technical feasibility of an exploration project and the decision to transfer exploration and evaluation ("E&E") assets to PP&E.

Determination of Cash Generating Units ("CGUs")

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Impairment of non-financial assets

Significant judgment is required to assess the Company's non-financial assets, namely PP&E, E&E and goodwill, for impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale. As a result of a significant decline in current and forecast oil and natural gas prices, an indication of potential impairment was identified and the Company was required to perform a formal impairment test and calculate the recoverable amount as at December 31, 2014.

Significant judgment and estimates are required to calculate the recoverable amount in an impairment test. Management calculated the recoverable amount of each CGU based on its FVLCD, using an after-tax discounted cash flow analysis derived from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and are subject to variability due to changes in forecasted commodity prices. In addition, the present value of forecast future cash flows is highly sensitive to the discount rate. Judgment is required to determine an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Refer to note 8 of the financial statements for a discussion of the specific estimates and assumptions applied in the calculation of the recoverable amount. For the purpose of impairment testing, goodwill is allocated to the CGU expected to benefit from the business combination.

Exploration and evaluation assets

The decision to transfer assets from E&E to PP&E requires judgment as it is based on estimated proved reserves, which are used, in part, to determine a project's technical feasibility and commercial viability. Judgment is also required to determine the level at which E&E is assessed for impairment; for Kelt, the recoverable amount of E&E assets is assessed at the operating segment level.

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and infrastructure. In most instances, dismantling of assets and remediation occurs many years into the future. The value of the ultimate decommissioning obligation can fluctuate in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, and changes to the risk-free discount rate. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate.

Kelt estimates abandonment and reclamation costs based on a combination of publically available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the proved plus probable period to abandonment for each field, as per the independent reserve report. For non-producing wells, the expected timing of settlement is estimated to be half of the period applied to producing wells in that field, unless the timing to abandon and reclaim a specific well site or facility is known based on budgeted expenditures.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require the most judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment.

Deferred income taxes

The Company follows the liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, deferred income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Given the Company had a net deferred income tax liability as at December 31, 2014, judgment with respect to the recoverability of deferred income tax assets was not required in the current reporting period. The provision for deferred income taxes also includes the following significant judgments of management:

- Classification of intangible drilling and completion costs as Canadian exploration expenses ("CEE") or Canadian development expenses ("CDE") – CEE is deductible at a rate of 100% per year, whereas CDE may be deducted on a declining basis at 30% per year. Accordingly, the allocation of resource deductions will impact the period in which Kelt may become taxable in the future. In addition, the designation of certain expenditures as CEE and/or CDE impacts the Company's ability to satisfy its flow-through share obligations; and

- Recognition of unrecognized deferred income tax asset – per IAS 12, deferred income taxes are not initially recognized on transactions that are not business combinations. The unrecognized deferred income tax asset that arose on the Common Control Transaction is being amortized based on the corporate weighted average depletion factor for the period.

Share based compensation

The Company uses the fair value method of accounting for its long-term incentive plans, which include an Incentive Stock Option Plan and a Restricted Share Unit Plan. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value.

For stock options, the Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in note 12.

The fair value of restricted share units is estimated based on the volume weighted average trading price on the TSX over three trading days immediately prior to the date of grant. Judgment is also required to estimate the number of restricted share units that will ultimately vest. The assumptions used by the Company are discussed in note 12.

Flow-through shares

There is no IFRS guidance that specifically addresses accounting for flow-through shares, therefore the Company is required to develop an accounting policy. The two most common methods are the residual method and the relative fair value method. The Company has applied the residual method to appropriately reflect the substance transaction. Under the residual method, the proceeds from the issuance are allocated between i) the proceeds of the offering of shares, and ii) the renunciation of tax deductions. At the time the flow-through shares are issued: i) shareholders' capital is credited based on the fair value of ordinary common shares, and ii) the tax deductions to be renounced are deferred and presented as a liability in the Statement of Financial Position, at an amount equal to the residual difference between the fair value of the Company's ordinary common shares relative to the amount the investor pays for the flow-through shares.

Determination of the fair value of ordinary shares requires judgment. Typically, it is based on the share price at the time the parties agree to the transaction, which is generally at a date earlier than closing. If there are significant changes in the share price between the date the parties agree to the offering and closing, additional judgment may be required.

Judgment is also required to determine when the Company has fulfilled its obligation to pass on the tax deduction to investors, at which time, the premium on flow-through shares is recognized in income. The Company deems the obligation to have been fulfilled in the period that eligible expenditures are incurred, regardless of the period in which the tax deductions are legally renounced. This is based on the view that the renunciation is perfunctory and that the accounting should be reflected when the expenditure is made.

3. SIGNIFICANT ACCOUNTING POLICIES

Joint Interests

A substantial portion of the Company's exploration, development and production activities is conducted jointly with others through unincorporated joint ventures. These financial statements reflect only the Company's proportionate interest of these jointly controlled assets and the proportionate share of the relevant revenue and related costs.

Foreign currency translation

The financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars using the closing exchange rate at the Statement of Financial Position date. The resulting exchange rate differences are included in the Statement of Profit and Comprehensive Income.

Business combinations

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in the Statement of Profit and Comprehensive Income. Transaction costs associated with the acquisition are expensed when incurred.

Common control transaction

Business combinations involving entities under common control are outside the scope of IFRS 3 *Business Combinations*. IFRS provides no guidance on the accounting for these types of transactions and an entity is required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Management has determined the predecessor values from date of transaction method to be most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without any step up to fair value. The difference between any consideration and the aggregate carrying value of the assets and liabilities are recorded as a reserve from common control transaction in shareholders' equity. Transaction costs associated with a common control transaction are recognized as an expense in the period.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs of disposal, and depletion & depreciation ceases at the time this designation is made.

If a non-current asset or disposal group has been classified as held for sale, but subsequently ceases to meet the criteria to be classified as held for sale, the Company ceases to classify the asset or disposal group as held for sale. Non-current assets and disposal groups that cease to be classified as held for sale are measured at the lower of carrying amount before the asset or disposal group was classified as held for sale (adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset or disposal group not been classified as held for sale) and its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount is recognized in profit or loss in the period in which the asset ceases to be classified as held for sale.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the Statement of Profit and Comprehensive Income. Gains and losses arising from changes in fair value are presented in profit or loss in the period in which they arise.

Financial assets and liabilities at fair value through profit or loss are classified as current in the Statement of Financial Position, except for any portion expected to be realized or paid beyond twelve months of the Statement of Financial Position date.

ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not currently hold any available-for-sale investments.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, accounts receivable and deposits. They are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less any required discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

iv) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and bank debt. Accounts payable are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value. Bank debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

v) Derivative financial instruments

The Company may use derivative financial instruments for risk management purposes. All derivatives have been classified at fair value through profit or loss. Financial instruments are included on the Statement of Financial Position within derivative financial instruments and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement of derivatives are included in profit or loss in the period in which they arise.

Exploration and evaluation assets ("E&E") and Property, plant and equipment ("PP&E")

i) Recognition and measurement

Pre-license costs

Costs incurred prior to acquiring the legal rights to explore an area are charged directly to profit or loss as exploration expense in the period incurred. The Company did not incur pre-license costs in the current or prior period.

Exploration and evaluation assets

All costs directly associated with the exploration and evaluation of petroleum and natural gas reserves are initially capitalized. Exploration and evaluation costs include unproved property acquisition costs such as undeveloped land and mineral leases, geological and geophysical costs, and costs associated with exploratory drilling, sampling and appraisals.

The costs are accumulated by field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be achieved when proved reserves are determined to exist. Prior to being transferred to PP&E, E&E costs are first tested for impairment. If proved/probable reserves have not been established through the completion of exploration and evaluation activities and there are no future plans for activity in that field, then the costs are determined to be impaired and the amounts are charged to the Statement of Profit and Comprehensive Income.

Such costs are not subject to depletion or depreciation until they are reclassified from E&E to PP&E.

Property, plant and equipment

Property, plant, and equipment primarily consists of petroleum and natural gas development and production assets, and is measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, estimated decommissioning costs and transfers from E&E. In addition, borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use.

ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing components of equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred. Such capitalized amounts generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized.

The gain or loss from the divestitures of property, plant and equipment is recognized in the Statement of Profit and Comprehensive Income. In addition, risk-sharing agreements in which the Company cedes a portion of its working interest to a third-party are generally considered to be disposals of property, plant and equipment, potentially resulting in a gain or loss on disposition.

Exchanges of assets within property, plant and equipment are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Unless the fair value of the asset received is more clearly evident, the cost of the acquired asset is measured at the fair value of the asset given up. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

An asset within property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the period in which the item is derecognized.

iii) Depletion and depreciation

Development and production costs are accumulated on a field or geotechnical area basis (“depletion units”). The net carrying value of each depletion unit is depleted using the unit of production method by reference to the ratio of production in the year to the related proved reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Where significant components of development or production assets have different useful lives, they are accounted for and depreciated as separate items of property, plant and equipment.

Impairment of assets

Non-financial assets

The Company reviews the carrying value of its non-financial assets, including PP&E and E&E, on a quarterly basis to determine whether there is any indication of impairment. Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are also assessed for impairment prior to being reclassified to PP&E.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD"). Goodwill is allocated to the CGU expected to benefit from the business combination. E&E assets are assessed for impairment at the operating segment level.

FVLCD is defined as the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The Company calculates FVLCD by reference to the after-tax future cash flows expected to be derived from production of proved plus probable reserves, less estimated selling costs. The estimated after-tax future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Statement of Profit and Comprehensive Income. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Goodwill

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

Leases

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The Company does not currently have any finance leases.

All of the Company's leases are operating leases, which are not recognized on the Statement of Financial Position. Rather, payments in respect of operating leases are recognized in the Statement of Profit and Comprehensive Income on a straight-line basis over the term of the lease. In the event that lease inducements are received to enter into operating leases, such inducements are recognized as a deferred credit. The aggregate benefit of inducements is recognized as a reduction of the related rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation as a result of a past event, if it is probable that an outflow of resources will be required and if a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the best estimate of discounted future cash outflows.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. An obligation is accrued for the estimated cost of site restoration and the corresponding amount is included in the cost of the assets to which the obligations relate. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation, changes to the expected timing of site restoration, as well as any changes in the risk-free discount rate. Increases in the provision due to the passage of time are recognized as a financing expense in the Statement of Profit and Comprehensive Income whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision is established.

Contingencies

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow.

Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the financial statements.

Income taxes

Total income tax expense is composed of both current and deferred income taxes.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are allocated between income and equity depending on the nature of the account balance or transaction that gives rise to the temporary difference.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits only if it is probable that sufficient future taxable income will be available to utilize those temporary differences and losses. Such deferred tax liabilities and assets are not recognized if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in the Statement of Profit and Comprehensive Income in the period that the change occurs.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets and liabilities are recorded on a non-discounted basis.

Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party and collectability is reasonably assured. This is generally at the time product enters the pipeline. Royalties, which are presented as a reduction in revenue in the Statement of Profit and Comprehensive Income, are recognized at the time of production. Net revenues earned from properties in which the Company shares a joint interest, are recognized proportionately based on the Company's working interest in those properties.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Financing expense

Financing expenses include interest expense on borrowings and accretion of the discount on decommissioning obligations due to the passage of time.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time required to complete and prepare the assets for their intended use. All other borrowing costs are recognized in financing expense using the effective interest method.

Share based compensation

The Company has an Incentive Stock Option Plan and Restricted Share Unit Plan (collectively, the "Plans"). Pursuant to the Plans, stock options and restricted share units ("RSUs") may be granted to officers, directors, employees and certain consultants, which call for settlement through the issuance of new common shares of the Company.

The Company applies the fair value method of accounting for stock options, whereby each tranche in an award is valued separately on the grant date using the Black-Scholes option pricing model. The fair value of RSUs is calculated based on the volume weighted average trading price over three trading days immediately prior to the date of grant. The total fair value associated the stock options and RSUs is recognized over the service period using graded vesting, as share based compensation expense with a corresponding increase to contributed surplus. An estimated forfeiture rate is applied against the total fair value on the grant date and is adjusted to reflect the actual number of options that ultimately vest each period. The consideration received by the Company on the exercise of stock options is recorded as an increase in shareholders' capital, together with the corresponding amounts previously recognized in contributed surplus.

Flow-through shares

Canadian tax legislation permits entities meeting specified criteria to issue securities to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity (hereinafter referred to as "flow-through shares"). The Company uses the residual method to account for flow-through shares. Under this method, the proceeds from the issuance are allocated between i) the proceeds of the offering of shares, and ii) the renunciation of tax deductions. At the time the flow-through shares are issued: i) shareholders' capital is credited based on the fair value of ordinary common shares, and ii) the tax deductions to be renounced are deferred and presented a liability in the Statement of Financial Position, at an amount equal to the residual difference between the fair value of the Company's ordinary common shares relative to the amount the investor pays for the flow-through shares. At the time the Company fulfills its obligation to pass on the tax deductions to investors, which is deemed to occur when the eligible expenditures are incurred, the liability (deferred premium) is drawn down in proportion to the eligible expenditures incurred in the period and the premium on flow-through shares is recognized as income in the Statement of Profit and Comprehensive Income. Concurrently, a deferred income tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of the eligible expenditures capitalized as an asset for accounting purposes and a tax base of nil, because the deduction has been renounced to investors.

Per share amounts

Basic profit (loss) per common share is calculated by dividing profit (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Common shares issued as part of the consideration transferred in a business combination or common control transaction are included in the weighted average number of common shares starting from the acquisition date.

Diluted profit (loss) per common share is calculated giving effect to the potential dilution that would occur if all outstanding "in-the-money" stock options were exercised or converted to common shares. The weighted average number of common shares outstanding during the period is adjusted by the incremental number of shares calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the volume weighted average market price during the period.

New or amended IFRSs effective January 1, 2014

IAS 32 *Financial Instruments: Presentation,* has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset must be available on the current date and cannot be contingent upon a future event. The adoption of this amendment did not impact the Company's financial statements.

IAS 36 *Impairment of Assets,* has been amended to require additional disclosures in the event of recognizing an impairment of assets. The Company did not recognize an impairment of assets as at or during the year ended December 31, 2014 and as a result, the adoption of this amendment did not impact the Company's financial statement disclosures.

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

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. COMMON CONTROL TRANSACTION

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

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

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

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

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

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

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

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

Under the terms of the Arrangement, the Company acquired tax pools in the amount of $165.2 million relating to the Celtic Assets. The Company did not initially recognize a deferred income tax asset of $14.4 million related to the excess of tax pools acquired relative to the carrying value of the net assets transferred because the Common Control Transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 *Income taxes*. Refer to note 13 for additional information.

5. ACQUISITIONS

a) Corporate acquisition

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

The table below summarizes the allocation of the purchase price:

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

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

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

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

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

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the transaction on July 2, 2014. Specifically, Kelt's profit for the year ended December 31, 2014 includes approximately $17.4 million of revenue and $8.2 million of operating income generated from the acquired properties subsequent to closing. If the acquisition had occurred on January 1, 2014, pro-forma revenue and operating income for the assets acquired is estimated to be approximately $44.1 million and $22.1 million, respectively, for the year ended December 31, 2014. Operating income is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

b) Property acquisitions

Stoddart property acquisition

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

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

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

The acquisition had an effective date of October 1, 2014 and the purchase price was adjusted for the results of operations between the effective date and closing of the transaction. The fair values of identifiable assets and liabilities acquired as reported in the table above were estimated based on information available at the time of preparation of these financial statements. Actual amounts recognized by the Company once the acquisition accounting is finalized may differ materially from these estimates.

The Statement of Profit (Loss) and Comprehensive Income (Loss) includes the results of operations for the period following closing of the transaction on December 18, 2014. Specifically, Kelt's profit for the year ended December 31, 2014 includes approximately $0.2 million of revenue and $0.1 million of operating income generated from the Stoddart property subsequent to closing. If the acquisition had occurred on January 1, 2014, pro-forma revenue and operating income for the acquired property is estimated to be approximately $7.8 million and $3.0 million, respectively, for the year ended December 31, 2014. Operating income is defined as revenue, net of royalties, less production and transportation expenses. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

Other property acquisitions

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

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

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

Fireweed property acquisition

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

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

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

Pouce Coupe/Spirit River property acquisition

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

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

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

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

6. DISPOSITION OF ASSETS HELD FOR SALE

On February 10, 2014, Kelt completed the disposition of certain non-core and non-operated assets located in northwestern Alberta (collectively referenced herein as the "Assets Held for Sale"). The Company received proceeds of approximately $19.6 million, after closing adjustments.

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

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

	December 31, 2014	December 31, 2013
Property, plant and equipment	**-**	20,635
Decommissioning obligations	**-**	(1,000)
Assets Held for Sale	**-**	19,635

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

The Statement of Profit and Comprehensive Income for the year ended December 31, 2014 includes approximately $0.7 million of revenue and $0.4 million of operating income in respect of the Assets Held for Sale for the 40 day period up to closing of the disposition on February 10, 2014. There were no future development costs assigned to these assets. The disposition did not result in a reduction of the authorized borrowing amount available under the Credit Facility (note 10).

7. EXPLORATION AND EVALUATION ASSETS

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

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

	December 31, 2014	December 31, 2013
Balance, beginning of period	**40,564**	-
Common control transaction [note 4]	**-**	12,785
Additions	**101,524**	46,717
Property acquisitions [note 5]	**8,368**	11,355
Corporate acquisition [note 5]	**10,832**	-
Transfers to property, plant and equipment	**(81,617)**	(30,179)
Expired mineral leases	**(377)**	(114)
Balance, end of period	**79,294**	40,564

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

8. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	December 31, 2014	December 31, 2013
Development and production assets	**769,951**	376,399
Corporate assets	**533**	309
Total net carrying value of property, plant and equipment	**770,484**	376,708

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

Property, plant and equipment, at cost	D&P(1) Assets	Corporate Assets	Total PP&E
Balance at December 31, 2012	-	-	-
Common control transaction [note 4]	126,062	-	126,062
Additions	49,321	414	49,735
Property acquisitions [note 5]	198,089	-	198,089
Decommissioning costs	38,833	-	38,833
Transfers from E&E	30,179	-	30,179
Assets held for sale [note 6]	(20,635)	-	(20,635)
Balance at December 31, 2013	**421,849**	**414**	**422,263**
Additions	**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**

Accumulated depletion and depreciation	D&P(1) Assets	Corporate Assets	Total PP&E
Balance at December 31, 2012	-	-	-
Common control transaction [note 4]	22,218	-	22,218
Depletion and depreciation expense	23,232	105	23,337
Balance at December 31, 2013	**45,450**	**105**	**45,555**
Depletion and depreciation expense	**84,006**	**412**	**84,418**
Dispositions	**-**	**(22)**	**(22)**
Balance at December 31, 2014	**129,456**	**495**	**129,951**

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

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

Future capital costs required to develop proved reserves in the amount of $382.8 million (2013 – $219.6 million) are included in the depletion calculation for development and production assets.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The Company reviewed each CGU for indicators of possible impairment as of December 31, 2014. As a result of a decrease in forecast oil and natural gas prices, an indication of potential impairment was identified for all CGUs. Recoverable amounts for the Company’s CGUs were estimated based on FVLCD, calculated using the present value of the CGUs’ expected future cash flows (after-tax). The primary source of cash flow information was derived from a report on the Company's oil and gas reserves (the "Sproule Report") which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule"). The projected cash flows in the Sproule Report reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on past experience, historical trends and Sproule's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, capital expenditures are consistent with the estimates approved through the Company's annual reserves evaluation process. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates that reflect the risk specific to the assets in the CGU. The after-tax discount rate applied in the impairment calculation as at December 31, 2014 was 10% for all CGUs. Based on this analysis, the recoverable amount of each CGU exceeded its' carrying value, and accordingly, no impairment losses were recorded.

Forecast future prices used in the impairment evaluation as at December 31, 2014 reflect benchmark prices (WTI, Canadian Light Sweet, Henry Hub, AECO-C) adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

	2015	2016	2017	2018	2019(1)
Oil ($/bbl)	65.23	82.17	92.85	94.33	95.83
NGLs ($/bbl)	43.82	56.81	66.06	67.31	68.62
Natural gas ($/mcf)	3.41	3.81	4.02	4.67	5.31

(1) Prices escalate at 1.5% thereafter

The recoverable amount is highly sensitive to the discount rate and forecast future commodity prices. If the discount rate applied to forecasted future net cash flows increased by 1%, the Company would have recognized an impairment of PP&E of approximately $1.0 million. If forecast commodity prices decreased by 5%, the Company would have recognized an impairment of PP&E of approximately $3.8 million.

During the previous year ended December 31, 2013, there were no indicators of impairment identified. Accordingly, an impairment test was not required and there were no impairment losses recognized in the prior year.

9. GOODWILL

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

The carrying value of goodwill is attributable to the acquisition of Capio on July 2, 2014. The Capio assets are located at Valhalla/La Glace, adjacent to Kelt's core producing assets at Pouce Coupe/Spirit River in the Grande Prairie area of west central Alberta. For the purposes of impairment testing, the carrying value of goodwill was allocated to the Company's Greater Grande Prairie CGU. As more particularly described in note 8, the Company completed an impairment test as at December 31, 2014 and concluded that the Greater Grande Prairie CGU, including allocated goodwill, was not impaired.

10. BANK DEBT

The Company has a committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. The authorized borrowing amount available under the Credit Facility is $235.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on May 1, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 if not renewed. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company has 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the redetermined 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.

	December 31, 2014	December 31, 2013
Bank loan	**47,200**	-
Bankers' acceptances	**-**	-
Unamortized financing fees	**(271)**	-
Bank debt	**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.

11. DECOMMISSIONING OBLIGATIONS

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

	December 31, 2014	December 31, 2013
Balance, beginning of period	**48,169**	-
Common control transaction [note 4]	**-**	9,089
Obligations incurred	**3,259**	1,698
Obligations acquired(1) [note 5]	**7,542**	16,231
Disposition of obligations held for sale [note 6]	**(1,000)**	-
Obligations settled	**(229)**	-
Changes in discount rate(1)	**35,095**	21,491
Revisions to estimates	**254**	(587)
Accretion expense	**1,701**	247
Balance, end of period	**94,791**	48,169
Current portion of decommissioning obligations	**(758)**	(312)
Obligations associated with assets held for sale [note 6]	**-**	(1,000)
Long-term portion of decommissioning obligations	**94,033**	46,857

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

The key assumptions on which the carrying amount of the decommissioning obligations is based, include a risk-free rate of 2.3% (2013 – 3.2%) and an inflation rate of 2.0% (2013 – 2.0%). The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2014, the undiscounted amount of the estimated cash flows required to settle the obligation is $105.9 million (2013 – $74.0 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 15).

12. SHARE CAPITAL

Authorized

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

Issued and outstanding

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

	Number of Shares (000's)	Amount ($ thousands)
Balance at December 31, 2012	-	-
Issued pursuant to the Arrangement [note 4]	61,126	141,961
Issued for cash through private placement offerings	48,900	320,930
Deferred premium on flow-through shares	-	(3,600)
Share issue costs, net of deferred income taxes ($3,138)	-	(9,415)
Balance at December 31, 2013	**110,026**	**449,876**
Issued for cash through private placement offering	**12,592**	**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**

There are no preferred shares issued or outstanding as of December 31, 2014 (2013 – nil).

i) Common share offerings

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. The market price of an ordinary common share was determined using a five day volume weighted average trading price, as defined in the TSX Company Manual, given there was no concurrent offering of ordinary common shares. 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 December 31, 2014, the Company had not incurred any Qualifying Expenditures, leaving $2.0 million of Qualifying Expenditures to be incurred in 2015. Kelt shall renounce the Qualifying Expenditures so incurred to the subscriber of the flow-through shares such that $11.00 per flow-through share shall be deductible against the subscriber's income for the fiscal year ended December 31, 2014.

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 (which includes the exercise, in full, of the over-allotment option to purchase 1.275 million common shares) and issued 1.53 million common shares on a “flow-through” basis at a price of $12.75 per flow-through share. The Company issued an additional 1.105 million flow-through common shares at a price of $12.75 per flow-through share to certain directors, officers and employees of the Company, pursuant to the non-brokered private placement. The implied premium on the flow-through shares was determined to be $3.0 million or $1.15 per flow-through share. Kelt shall, pursuant to the provisions in the *Income Tax Act* (Canada), incur eligible Canadian development expenses (the “Qualifying Expenditures”) after March 25, 2014 and prior to December 31, 2014 in the aggregate amount of not less than the total amount of the gross proceeds raised from the issue of flow-through common shares of $33.6 million. As of December 31, 2014, the Company had incurred the full commitment of $33.6 million of Qualifying Expenditures. Kelt renounced the Qualifying Expenditures incurred to the subscribers of the flow-through common shares in an amount equal to $12.75 per flow-through common share with an effective date of December 31, 2014.

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

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

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

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

ii) Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000's)	Average Exercise Price ($/share)
Balance at December 31, 2012	-	-
Granted	2,421	6.84
Balance at December 31, 2013	**2,421**	**6.84**
Granted	**2,624**	**9.79**
Exercised[1]	**(45)**	**6.47**
Forfeited	**(73)**	**8.91**
Balance at December 31, 2014	**4,927**	**8.38**

(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:

	Year ended December 31	
	2014	2013
Risk free interest rate	**1.2%**	1.2%
Expected life (years)	**3.5**	3.6
Expected volatility[1]	**37.3%**	51.6%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**0.6%**	0.4%
Fair value of options granted during the year ($/share)	**2.72**	2.61

(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 December 31, 2014:

Range of exercise prices per common share	Number of options outstanding (000's)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000's)	Weighted average exercise price for options exercisable ($/share)
$5.00 to $10.00	3,704	3.9	7.00	759	6.85
$10.01 to $15.00	1,163	4.3	12.42	-	-
$15.01 to $20.00	60	4.5	15.40	-	-
Total	**4,927**	**4.0**	**8.38**	**759**	**6.85**

iii) Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000’s)
Balance at December 31, 2012	-
Granted	1,623
Balance at December 31, 2013	**1,623**
Granted	**208**
Forfeited	**(69)**
Balance at December 31, 2014	**1,762**

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:

	Year ended December 31	
	2014	2013
Stock options	**4,116**	2,593
Restricted share units	**4,917**	3,186
Total share based compensation expense	**9,033**	5,779

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:

	Year ended December 31	
(000’s of common shares)	**2014**	2013
Weighted average common shares outstanding, basic	**121,779**	74,554
Effect of stock options and RSUs	**2,517**	539
Weighted average common shares outstanding, diluted	**124,296**	75,093

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for the year ended December 31, 2013, the Company excluded the effect of stock options and RSUs as they were anti-dilutive.

13. INCOME TAXES

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

	Year ended December 31	
	2014	2013
Current income tax expense	**-**	-
Deferred income tax expense	**15,834**	1,181
Total income tax expense	**15,834**	1,181

Kelt was not required to pay current income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of December 31, 2014 are estimated to be approximately $599.8 million (2013 – $447.0 million).

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):

	Year ended December 31	
	2014	2013
Profit (loss) before income taxes	**26,462**	(3,934)
Canadian statutory tax rate	**25.09%**	25.00%
Expected income tax expense (recovery)	**6,640**	(984)
Increase (decrease) resulting from:		
Non-deductible expenses(1)	**2,272**	1,449
Recognition of unrecognized deferred income tax asset	**(2,061)**	(1,972)
Qualifying Expenditures on flow-through shares [note 12]	**10,044**	3,293
Premium on flow-through shares [note 12]	**(1,057)**	(605)
Other	**(4)**	-
Deferred income tax expense	**15,834**	1,181

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

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

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

During the year ended December 31, 2014, the Company renounced tax pools in the amount of $40.0 million related to Qualifying Expenditures incurred pursuant to flow-through common share offerings. The Company's renounced $13.2 million of tax pools to the subscribers of flow-through common shares during the previous year ended December 31, 2013.

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

Deferred income tax asset (liability)	Balance at December 31, 2013	Recognized in profit and CI(1)	Recognized in balance sheet	**Balance at 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)**

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

(1) Comprehensive income has been abbreviated as "CI"
(2) The Company's non-capital losses expire in 15-20 years.

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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 December 31, 2014:

	Level 1	Level 2	Level 3
Financial assets			
Derivative financial instruments	-	1,745	-

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 December 31, 2014, there are no offsetting derivative contracts.

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	**December 31, 2014**	December 31, 2013
Joint venture partners	**11,972**	5,771
Oil and gas marketers	**15,488**	4,384
GST input tax credits	**5,461**	1,981
Interest receivable	**-**	33
Risk management contracts	**1,681**	-
Other	**490**	913
Accounts receivable & accrued revenue	**35,092**	13,082

During the year ended December 31, 2014, sales to three external customers each individually represented more than 10% of total revenue. Sales to these customers account for approximately 53%, 16%, and 15% of total revenue, respectively. During the previous year ended December 31, 2013, sales to two external customers accounted for approximately 55% and 29% of total revenue, respectively.

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

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

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

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

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

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

Accounts receivable & accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at December 31, 2014	**31,071**	**2,499**	**208**	**1,314**	**35,092**
Balance at December 31, 2013	11,799	194	834	255	13,082

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

Liquidity Risk

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

As at December 31, 2014, the Company had a net working capital deficit of $57.5 million. The capital intensive nature of Kelt’s activities may create a working capital deficiency position during periods with high levels of capital investment. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. As discussed further under the Capital Management section to follow, Kelt targets a relatively low debt to trailing funds from operations ratio. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. The Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

As discussed in note 10, Kelt has drawn $46.9 million on its $235.0 million committed term Credit Facility. The Credit Facility is available for a revolving period of 364 days, maturing on May 1, 2015, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2016 if not renewed. Repayments of principal are not required provided that the borrowings under the 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 December 31, 2014, Kelt is in compliance with all other covenants. As a result of the precipitous decline in commodity prices, many oil and gas companies, including Kelt, are facing a number of uncertainties. Although management expects that the lenders will extend the Credit Facility in 2015, there is no assurance that the financial institutions will choose to do so. Should the financial institutions not extend the loan, the Company would need to seek alternative sources of debt or equity financing.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2014:

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	96,776	-	-	96,776
Bank debt and estimated interest(1)	1,888	47,816	-	49,704
Total	**98,664**	**47,816**	**-**	**146,480**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate for the year ended December 31, 2014, applied to the principal balance outstanding as at that date. Principal repayment of the Company's revolving Credit Facility is assumed on April 29, 2016.

Market Risks

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

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

Commodity price risk

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

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

The following table summarizes the Company's financial derivative risk management contracts outstanding as of December 31, 2014:

Commodity	Notional volume	Pricing point	Contract Price	Remaining term	Fair value Asset (Liability)
Propane	250 bbls/d	OPIS-Conway	US$ 40.95/bbl	Mar 1 to Dec 31, 2015	**1,745**
Net derivative financial instrument asset(1)					**1,745**

(1) The fair value of the derivative financial instruments is sensitive to changes in commodity prices. If the Canadian dollar equivalent OPIS-Conway propane price increases (decreases) by $1.00 per barrel, the fair market value of the contract would decrease (increase) by $0.1 million.

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

	Year ended December 31	
	2014	2013
Realized loss	**(388)**	(579)
Unrealized gain (loss)	**2,277**	(304)
Gain (loss) on derivative financial instruments	**1,889**	(883)

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. Assuming all other variables remain constant, an increase (decrease) of 1% in market interest rates would have decreased (increased) shareholders' equity and profit less than $0.1 million for the year ended December 31, 2014.

Since commencing active operations in February 2013, Kelt had not incurred any bank debt until the fourth quarter of 2014. The Company seeks to manage interest rate risk through the use of short-term fixed rate bankers' acceptances. In addition, the Company may utilize derivative risk management contracts such as interest rate swaps, however, the Company did not have any such contracts in place during the current or prior year.

Foreign exchange rate risk

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

The Company did not have any foreign exchange rate contracts in place during the current or prior year. Subsequent to December 31, 2014, the Company entered into a forward foreign exchange contract fixing the US/Canadian dollar exchange rate at US$0.7949 on a notional US$3.0 million per month from March to December 2015, representing approximately 40% of the Company's budgeted oil revenue currency exposure for the same period. The contract will settle monthly, based on the difference between the fixed rate and the average noon exchange rate for the month per the Bank of Canada.

In order to mitigate a portion of the risk relating to revenue that is subject to fluctuations in the exchange rate, the Company may enter into commodity swap transactions whereby commodity prices denominated in U.S. dollars are converted to Canadian dollars. There are no such contracts in place as at December 31, 2014.

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.

	December 31, 2014	December 31, 2013
Bank debt	**46,929**	-
Working capital deficiency (surplus)	**57,501**	(20,500)
Total debt (surplus)	**104,430**	(20,500)
Trailing funds from operations(1)(2)	**118,656**	37,584
Debt to trailing funds from operations ratio	**0.9**	N/A(3)

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

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

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

Kelt targets a debt to trailing funds from operations ratio of less than 2.0 times. The Company manages its capital structure and makes adjustments according to market conditions in order to maintain flexibility to achieve its objectives stated above. To adjust its capital structure, the Company may increase or decrease capital expenditures, issue new shares, issue new debt or repay existing debt.

As described in note 10, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at December 31, 2014, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

15. FINANCING EXPENSES

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

	Year ended December 31	
	2014	2013
Interest and fees on bank debt	**820**	82
Accretion of decommissioning obligations [note 11]	**1,701**	247
Financing expense	**2,521**	329

16. COMMITMENTS

As of December 31, 2014, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2015	2016	2017	2018	2019	Thereafter
Operating lease – office buildings	1,095	1,229	1,253	495	114	19
Operating lease – vehicles	219	157	69	1	-	-
Flow-through shares	2,002	-	-	-	-	-
Firm transportation commitments	2,967	1,173	14	-	-	-
Total annual commitments	**6,283**	**2,559**	**1,336**	**496**	**114**	**19**

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

On December 18, 2014, the Company issued 0.182 million flow-through shares at a price of $11.00 per flow-through 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 December 31, 2014, the Company had not incurred any Qualifying Expenditures, leaving $2.0 million of Qualifying Expenditures to be incurred in 2015. Kelt shall renounce the Qualifying Expenditures so incurred to the subscriber of the flow-through shares such that $11.00 per flow-through share shall be deductible against the subscriber's income for the fiscal year ended December 31, 2014.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
Changes in non-cash working capital	**2014**	2013
Accounts receivable and accrued revenue	**(16,675)**	(13,082)
Prepaid expenses and deposits	**(1,557)**	(1,240)
Accounts payable and accrued liabilities	**43,040**	43,447
Change in non-cash working capital	**24,808**	29,125
Relating to:		
Operating activities	**(2,883)**	3,235
Investing activities	**27,691**	25,890
Change in non-cash working capital	**24,808**	29,125

Cash outlays in respect of interest and taxes	Year ended December 31 **2014**	2013
Interest and standby fees on bank debt	**359**	70
Taxes	**-**	-

18. RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the year ended December 31, 2014, the Company incurred $0.4 million (2013 – $0.6 million) in legal fees and disbursements, of which, less than $0.1 million is payable at December 31, 2014 (2013 – $0.2 million). The Company expects to continue using the services of this law firm from time to time.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The following table summarizes compensation paid or payable to officers and directors of the Company:

	Year ended December 31 **2014**	2013
Salaries, bonuses and other benefits	**715**	485
Share based compensation	**4,096**	3,392
Total compensation	**4,811**	3,877

During the year ended December 31, 2014, key management personnel were granted an aggregate of 970,000 stock options with an average exercise price of $9.34 per share. During the previous year ended December 31, 2013, key management personnel were granted an aggregate of 789,000 restricted share units and 1,250,000 stock options with an exercise price of $6.47 per share.

In addition, the Common Control Transaction is considered to be a related party transaction because Kelt was a wholly owned subsidiary of Celtic immediately prior to closing of the Arrangement. Refer to note 4 for additional information regarding accounting for the transaction.

19. SUBSEQUENT EVENTS

Acquisition of Artek Exploration Ltd.

On February 20, 2015, Kelt entered into an agreement with Artek Exploration Ltd. (“Artek”), pursuant to which Kelt will acquire 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. The acquisition will be effected by way of a statutory plan of arrangement (the “Artek Arrangement”).

Based on the volume-weighted average trading price of the Kelt common shares for the five trading days ended February 20, 2015 of $8.10 on the TSX, the total consideration is approximately $307 million, comprised of the issuance of approximately 26.9 million Kelt common shares and the assumption of an estimated $89.5 million of bank debt, net of working capital, as at February 20, 2015, which includes estimated associated transaction costs of approximately $5.6 million.

Completion of the Artek Arrangement, which is anticipated to occur on or around April 16, 2015, is subject to, among other things, the approval of at least 66⅔% of votes cast by Artek shareholders voting at a special meeting of shareholders to be held on or around April 16, 2015, the approval of the Court of Queen’s Bench of Alberta, receipt of all necessary regulatory and stock exchange approvals and certain closing conditions that are customary for a transaction of this nature. Artek has agreed not to solicit or initiate any discussion regarding any other business combination or sale of material assets. Artek has also granted Kelt a right to match any superior proposal and has agreed to pay a termination fee of $8.5 million to Kelt in certain events, including if Artek recommends, approves or enters into an agreement with respect to a superior proposal.

The acquisition of Artek will consolidate 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 will result in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in the area.

Equity Private Placement

In February 2015, the Company agreed to issue by way of private placement, on a non-brokered basis, 3,881,400 common shares on a "flow-through" basis in respect of Canadian development expenses at a price of $8.60 per flow-through common share (the "2015 Private Placement"), resulting in gross proceeds of $33.4 million. Certain directors and officers of the Company subscribed to purchase 1,714,500 flow-through common shares for gross proceeds of $14.9 million, representing approximately 44% of the aggregate issue. The 2015 Private Placement will be completed in three tranches. The first tranche of 1,000,000 flow-through common shares closed on February 27, 2015. The second tranche of 2,300,000 flow-through common shares closed on March 6, 2015. The remaining tranche of 581,400 flow-through common shares is expected to close on or about March 16, 2015. Net proceeds of the offering will be used to partially finance drilling and completion expenditures during the remainder of 2015.

Kelt shall, pursuant to the provisions of the *Income Tax Act* (Canada), incur eligible Canadian development expenses, (the "Qualifying Expenditures") after the closing date and prior to December 31, 2015 in the aggregate amount of not less than the total amount of the gross proceeds raised from the issue of flow-through common shares. Kelt shall renounce the Qualifying Expenditures so incurred to the purchasers of the flow-through common shares in an amount equal to $8.60 per flow-through common share on or prior to December 31, 2015.

The Kelt common shares issued and to be issued in connection with the 2015 Private Placement are subject to a statutory hold period of four months plus one day from the respective dates of completion of the offering, in accordance with applicable securities legislation.