FIRST QUARTER REPORT

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2016

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

(CA$ thousands, except as otherwise indicated)

	Three months ended March 31		Change
	2016	2015	%
FINANCIAL			
Revenue, before royalties and financial instruments	**40,398**	39,383	3%
Funds from operations(1)	**5,951**	13,980	-57%
Basic ($/ common share)(1)	**0.04**	0.11	-64%
Diluted ($/ common share)(1)	**0.04**	0.11	-64%
Profit (loss) and comprehensive income (loss)	**(25,918)**	(16,524)	-57%
Basic ($/ common share)	**(0.15)**	(0.13)	-15%
Diluted ($/ common share)	**(0.15)**	(0.13)	-15%
Total capital expenditures, net of dispositions	**23,405**	77,700	-70%
Total assets	**1,268,268**	966,613	31%
Bank debt, net of working capital	**230,290**	138,750	66%
Shareholders' equity	**822,229**	635,708	29%
Weighted average common shares outstanding (000s)			
Basic	**168,824**	128,194	32%
Diluted	**168,869**	128,920	31%
OPERATIONS			
Average daily production			
Oil (bbls/d)	**5,873**	4,957	18%
NGLs (bbls/d)	**2,740**	1,379	99%
Gas (mcf/d)	**88,093**	58,016	52%
Combined (BOE/d)	**23,295**	16,005	46%
Production per million common shares (BOE/d)(1)	**138**	125	10%
Average realized prices, before financial instruments			
Oil ($/bbl)	**34.01**	45.45	-25%
NGLs ($/bbl)	**14.24**	25.73	-45%
Gas ($/mcf)	**2.33**	3.05	-24%
Operating netbacks(1) ($/BOE)			
Oil and gas revenue	**19.06**	27.34	-30%
Realized gain on financial instruments	**-**	1.27	-
Average realized price, after financial instruments	**19.06**	28.61	-33%
Royalties	**(1.35)**	(3.29)	-59%
Production expense	**(10.24)**	(11.93)	-14%
Transportation expense	**(2.71)**	(2.61)	4%
Operating netback(1)	**4.76**	10.78	-56%
Drilling Activity			
Total wells	**3**	7	-57%
Working interest wells	**2.5**	5.5	-55%
Success rate on working interest wells	**100%**	100%	0%
Undeveloped land			
Gross acres	**642,122**	511,550	26%
Net acres	**518,725**	339,783	53%

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

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. ("Kelt" or the "Company") has reported its financial and operating results to shareholders for the first quarter ended March 31, 2016.

Kelt achieved record production levels in the first quarter of 2016. Average production for the three months ended March 31, 2016 was 23,295 BOE per day, up 46% from average production of 16,005 BOE per day during the first quarter of 2015. Daily average production in the first quarter of 2016 was 16% higher than average production of 20,086 BOE per day in the fourth quarter of 2015.

Kelt's average oil price was $34.01 per barrel, down 25% from $45.45 per barrel in the first quarter of 2015. The realized average NGLs price during the first quarter of 2016 was $14.24 per barrel, down 45% from $25.73 per barrel in the corresponding period of 2015. The realized average gas price was $2.33 per MCF, down 24% from the realized average gas price in the first quarter of 2015.

For the three months ended March 31, 2016, revenue was $40.4 million and funds from operations was $6.0 million ($0.04 per share, diluted). At March 31, 2016, bank debt, net of working capital was $230.3 million. Operating expenses of $10.24 per BOE continue to improve and were 14% lower compared to $11.93 per BOE in the first quarter of 2015. During 2016, Kelt will continue to work on infrastructure projects that are expected to further reduce operating costs.

During the three months ended March 31, 2016, Kelt drilled 3 gross (2.5 net) wells. Two wells (100% working interest) were drilled at Inga, British Columbia ("BC") and one well (50% working interest) was drilled at Progress, Alberta. The Inga well, targeting a new Triassic Doig anomaly, and the Progress well, drilled as a follow-up to the original Progress Montney oil discovery well, are both expected to be completed in the second quarter.

The Company incurred total capital expenditures, net of dispositions, of $23.4 million during the first quarter of 2016, of which $13.3 million was for the drilling and completing of wells.

Subsequent to March 31, 2016, Kelt has taken measures to improve financial liquidity. On April 7, 2016, the Company closed a private placement of 4.7 million common shares on a "CDE flow-through" basis at a price of $4.70 per share, resulting in net proceeds of $22.0 million. On May 3, 2016, Kelt closed the issuance of $90.0 million principal amount of 5.0% convertible subordinated unsecured debentures, resulting in net proceeds of approximately $86.5 million.

On April 28, 2016, Kelt closed an acquisition of oil and gas assets in its core area at Progress, Alberta, for cash consideration of $18.8 million, before closing adjustments. The acquisition included approximately 600 BOE per day of current production (60% light oil), 4,135 net acres of land, and infrastructure that is an integral part of Kelt's existing light oil play at Progress.

During the second quarter of 2016, Kelt has budgeted downtime of approximately 7,200 BOE per day for a planned turnaround at the Progress Gas Plant that is expected to commence on or around May 28, 2016 and last just over two weeks. The Company has budgeted additional production downtime for other minor facility turnaround operations during the quarter. Recent forest fires in the vicinity of Fort St. John, BC, caused the Company production disruptions due to an evacuation order that required the West Stoddart Gas Plant to be temporarily shut-in. However, during this period, Kelt was able to mitigate certain production losses by diverting approximately 50% of its BC gas production to the McMahon Gas Plant. The West Stoddart Gas Plant is currently back on production. As a result of downtime, Kelt is forecasting second quarter 2016 production to average approximately 20,500 BOE per day.

Kelt has revised its 2016 outlook and guidance to reflect the aforementioned financing activities, the acquisition of assets at Progress and changes to forecasted commodity prices as follows:

- Average production of 21,500 BOE per day, up from previous guidance of 21,000 BOE per day;
- 2016 production mix is expected to be weighted 37% to oil & NGLs and 63% to gas;
- 2016 operating income is expected to be derived 86% from oil & NGLs and 14% from gas;
- Average WTI price of US$43.25 per barrel, up 11% from previous forecast;
- Average AECO gas price of $1.90 per GJ, down 24% from previous forecast;

- Total capital expenditures of $83.0 million, up 28% from previous guidance (mainly to reflect the acquisition of assets at Progress);
- Funds from operations of $50.0 million ($0.29 per share, diluted), down 9% from previous guidance; and
- Bank debt, net of working capital of $137.0 million (2.7x trailing funds from operations), down 38% from previous guidance.

On April 21, 2016, the Government of Alberta released further details of the Alberta Modernized Royalty Framework ("MRF"). The full extent of the impact of the MRF on the Company's future financial condition and performance is still being evaluated, however, high productivity deep oil plays are expected to benefit the most. Kelt is exposed to such plays in its core Montney oil development areas at Pouce Coupe, Progress, LaGlace and Karr. The Company's gas prospects appear to be value neutral under the MRF using current strip pricing.

In light of the current energy business environment with much lower oil and gas prices year-to-date in 2016, compared to 2015, Kelt is optimistic that it can take advantage of the downturn by continuing with its strategy with emphasis on low cost land accumulation in its core operating areas. Management looks forward to updating shareholders with 2016 second quarter results on or about August 10, 2016.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
May 10, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in west central Alberta and northeastern British Columbia. The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 as 1705972 Alberta Ltd. and was inactive until February 26, 2013. On October 19, 2012, Articles of Amendment were filed to change the name of the Company to Kelt Exploration Ltd. Kelt Exploration (LNG) Ltd. ("Kelt LNG") became a wholly-owned subsidiary of the Company on April 16, 2015. Kelt LNG's assets are located in the province of British Columbia. The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively. The head office of Kelt is located at Suite 300, 311 – 6th Avenue S.W., Calgary, Alberta T2P 3H2.

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

This Management's Discussion and Analysis ("MD&A") is dated May 10, 2016 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three months ended March 31, 2016 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2015. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook – Accounting* ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the condensed consolidated interim financial statements for issue on May 10, 2016.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the following: the anticipated continued reduction in production and transportation expenses resulting from operational initiatives and expenditures on infrastructure; the expectation that firm service gas transportation contracts will continue to alleviate production disruptions and discounted realized gas prices; the anticipated reduction in trucking costs at Karr upon completion of construction, by Pembina Pipeline Corp., of the Karr oil pipeline lateral which is expected to be in service by the second quarter of 2016; the expected outcome of the semi-annual review of the borrowing base available under Kelt's Credit Facility (defined herein) to be completed on or around May 31, 2016; the potential impact of the Modernized Royalty Framework on the Company's Alberta oil and gas assets; and the Company's expected future financial position and operating results, as well as the amount and timing of future development capital expenditures. Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Actual reserves may be greater than or less than the estimates provided herein.

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

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

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

GROWTH STRATEGY

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

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

RESULTS OF OPERATIONS

FIRST QUARTER FINANCIAL AND OPERATING HIGHLIGHTS

- During the first quarter of 2016, the Company achieved record production of 23,295 BOE per day, up 46% from 16,005 BOE per day in the same quarter of 2015, and up 16% from 20,086 BOE per day during the fourth quarter of 2015.
- The Company generated funds from operations of $6.0 million ($0.04 per common share, diluted) during the first quarter of 2016, down 57% from $14.0 million ($0.11 per common share, diluted) in the same quarter of 2015, reflecting significantly lower realized oil and gas prices.
- Corporate royalty rates averaged 7.1% of revenue during the first quarter of 2016, down from 12.0% in the first quarter of 2015.
- As a result of continued operational initiatives and previous expenditures on infrastructure, Kelt realized a 14% reduction in production expenses, which averaged $10.24 per BOE during the quarter ended March 31, 2016, compared to $11.93 per BOE during the quarter ended March 31, 2015.
- Transportation expenses averaged $2.71 per BOE during the first quarter of 2016, up 4% from $2.61 per BOE in the same quarter of 2015, primarily due to firm commitments for gas transportation on the Alliance pipeline whereby Kelt receives Chicago City-Gates pricing on a portion of its gas production.
- Kelt continues to incur below industry average general and administrative (“G&A”) expenses, which averaged $0.89 per BOE in the first quarter of 2016 in comparison to $0.47 per BOE in the first quarter of 2015. G&A expense is reported net of standard overhead recoveries, however, Kelt does not capitalize any direct G&A expenses.
- Kelt drilled 3 (2.5 net) wells during the three month period ended March 31, 2016, with a success rate of 100%. In the same three month period of the previous year, the Company drilled 7.0 (5.5 net) wells.

- The Company incurred total capital expenditures, net of dispositions, of $23.4 million during the first quarter of 2016, down 70% from $77.7 million in the first quarter 2015. Kelt spent $0.7 million on land and seismic, $13.3 million drilling and completing wells, and $10.5 million on infrastructure, primarily to equip and tie-in wells drilled and completed in the previous year and to optimize existing key infrastructure.
- On March 31, 2016, the Company completed a minor property disposition of certain non-core assets located at Boundary Lake, Alberta, for cash consideration of $1.1 million (before closing adjustments), resulting in a gain on sale of $2.1 million.

Refer to additional information under the heading of *"Subsequent Events"* for details regarding significant transactions completed subsequent to the quarter ended March 31, 2016.

PRODUCTION AND REVENUE

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Average daily production:			
Oil (bbls/d)	**5,873**	4,957	18%
NGLs (bbls/d)	**2,740**	1,379	99%
Gas (mcf/d)	**88,093**	58,016	52%
Combined (BOE/d)	**23,295**	16,005	46%
Production per million common shares (BOE/d)	**138**	125	10%
Average realized prices, before financial instruments:			
Oil ($/bbl)	**34.01**	45.45	-25%
NGLs ($/bbl)	**14.24**	25.73	-45%
Gas ($/mcf)	**2.33**	3.05	-24%
Combined ($/BOE)	**19.06**	27.34	-30%
Average realized prices, after financial instruments:			
Oil ($/bbl)	**34.01**	45.42	-25%
NGLs ($/bbl)	**14.24**	40.52	-65%
Gas ($/mcf)	**2.33**	3.05	-24%
Combined ($/BOE)	**19.06**	28.61	-33%
Revenue, before royalties and financial instruments:			
Oil	**18,175**	20,278	-10%
NGLs	**3,551**	3,193	11%
Gas	**18,672**	15,912	17%
Total revenue, before royalties and financial instruments	**40,398**	39,383	3%

Kelt achieved record production levels during the first quarter of 2016. Average production for the three month period ended March 31, 2016 was 23,295 BOE per day, up 16% from 20,086 BOE during the fourth quarter of 2015, and up 46% from average production of 16,005 BOE per day in the first quarter of 2015. The increase in average daily production reflects the Company's successful 2015 drilling program and strategic acquisitions. In particular, the Artek Acquisition more than doubled Kelt's production at its Inga-Fireweed-Stoddart core area in northeastern BC following closing of the acquisition on April 16, 2015.

Throughout 2015, a portion of the Company's production was constrained by third-party downtime and pipeline restrictions (1,862 BOE per day during the fourth quarter of 2015). In order to strengthen the Company's access to alternative gas markets and to reduce the risk of future production downtime, Kelt entered into transportation agreements on the Alliance pipeline, with Chicago City-Gates pricing effective December 1, 2015. Except for minor production disruptions due to plant downtime, most processing and transportation capacity issues have been alleviated and there have not been any significant production disruptions to date in 2016.

The Company earned revenue before royalties and financial instruments of $40.4 million during the first quarter of 2016, up 3% from the first quarter of 2015, despite increasing production by 46% over the same period. As a result of the significant decline in oil and gas prices, the Company's combined average sales price decreased to $19.06 per BOE ($19.06 after financial instruments) during the three month period ended March 31, 2016, down 33% from $27.34 per BOE ($28.61 after financial instruments) during the three month period ended March 31, 2015. During the quarter ended March 31, 2016, production was weighted 37% to oil and NGLs compared to 40% during the same quarter of the previous year.

OIL OPERATIONS

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Oil revenue	**18,175**	20,278	-10%
Oil royalties	**(2,372)**	(3,654)	-35%
Oil revenue, after royalties	**15,803**	16,624	-5%
Average realized price, before financial instruments ($/bbl)	**34.01**	45.45	-25%
Realized gain (loss) on financial instruments ($/bbl)	**-**	(0.03)	-
Average realized price, after financial instruments ($/bbl)	**34.01**	45.42	-25%
Benchmark oil prices:			
WTI Cushing Oklahoma (US$/bbl)(1)	**33.45**	48.63	-31%
WTI Cushing Oklahoma (CA$/bbl)(2)	**45.84**	60.33	-24%
Canadian Light Sweet ($/bbl)(1)	**41.22**	53.22	-23%
% of CA$WTI	***90%***	*88%*	*2%*
Average exchange rate (CA$/US$)(1)	**1.3723**	1.2398	11%

(1) Source: Sproule Associates Limited.

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

During the three month period ended March 31, 2016, the Company realized an average price for oil sales of $34.01 per barrel, down 25% from $45.45 ($45.42 after financial instruments) per barrel realized in the same three month period of 2015. While the WTI index oil price fell by 31% over this period to US$33.45 per barrel in the first quarter of 2016, the US dollar appreciated by 11%, softening the impact of falling oil prices on the average oil price realized by the Company denominated in Canadian dollars.

Kelt's realized price for oil sales reflects a discount of $7.21 per barrel relative to the Canadian Light Sweet reference price during in the first quarter of 2016, compared to a discount of $7.77 per barrel in the first quarter of 2015. The price paid by purchasers of the Company's oil production is adjusted for quality and is net of all applicable fees and deductions, including pipeline tariffs or location differentials, which are generally a fixed charge per unit under the purchase agreement. These tariffs and differentials vary depending on the delivery point, but do not fluctuate with oil prices. Consequently, Kelt's realized oil price carries a deeper percentage discount to the Canadian Light Sweet reference price during the first three months of 2016, relative to the comparative quarter in which the fixed charges represented a lower percentage of the reference price.

Fixed pipeline tariffs on the Company's BC oil production are higher than average tariffs on its Alberta oil production. Approximately 25% of Kelt's total oil production was derived from field condensate produced at the Company's Inga-Fireweed core area in northeastern BC during the quarter ended March 31, 2016. As a result of the Artek Acquisition on April 16, 2015 and Kelt's active drilling program in the area, the Company's BC oil production has more than doubled since the first quarter of 2015.

Oil royalties averaged 13.1% of oil revenue during the three month period ended March 31, 2016, compared to 18.0% in the same quarter of 2015. Kelt's oil royalty rate decreased due to lower oil prices as well as new oil production which qualifies for various royalty incentives.

NGL OPERATIONS

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
NGLs revenue	**3,551**	3,193	11%
NGL royalties	**(146)**	(361)	-60%
NGLs revenue, after royalties	**3,405**	2,832	20%
Average realized price, before financial instruments ($/bbl)	**14.24**	25.73	-45%
Realized gain (loss) on financial instruments ($/bbl)(1)	**-**	14.79	-
Average realized price, after financial instruments ($/bbl)	**14.24**	40.52	-65%
Benchmark NGLs prices(2):			
Edmonton Pentane (CA$/bbl)	**45.34**	57.07	-21%
Edmonton Butane (CA$/bbl)	**29.34**	43.39	-32%
Edmonton Propane (CA$/bbl)	**7.14**	10.50	-32%
Edmonton Ethane (CA$/bbl)	**5.08**	7.61	-33%
Weighted average NGLs benchmark price ($/bbl)(3)	**22.04**	33.55	-34%

(1) In January 2015, the Company unwound an OPIS-Conway propane derivative contract for proceeds of US$1.5 million (CA$1.8 million).

(2) Source: Sproule Associates Limited.

(3) Average of Edmonton NGL prices during the period (2), weighted based on Kelt's actual NGL sales volumes in each respective period.

During the quarter ended March 31, 2016, the Company realized an average price for NGL sales of $14.24 per barrel, down 45% from $25.73 per barrel (before financial instruments) in the corresponding period of 2015. Kelt's realized price for NGL sales is reported net of deductions, primarily transportation and fractionation charges, which are generally a fixed dollar amount per unit under the NGLs purchase contracts, depending on the point of delivery. As these charges do not fluctuate with NGL prices, the impact of lower benchmark prices for NGLs on Kelt's average realized price is more pervasive.

Kelt's NGL sales volumes were weighted 27% pentane, 27% butane, 29% propane and 17% ethane during the first three months of 2016. By comparison, NGL sales volumes were weighted 33% pentane, 30% butane, 31% propane and 6% ethane during the quarter ended March 31, 2015. The change in NGLs product mix is primarily attributable to a new marketing arrangement that came into effect in November 2015, resulting in higher total NGL recoveries on Company's production originating from the West Stoddart Gas Plant in northeastern BC. The arrangement results in a higher shrink of its BC gas production, however, the price realized on additional NGL barrels extracted is at a premium to the Station 2 gas price.

NGL royalties averaged 4.1% during the quarter ended March 31, 2016, down from 11.3% during the first quarter of 2015. NGL royalties are reduced by gas cost allowance credits allocated to NGLs production, which do not fluctuate with NGL prices.

GAS OPERATIONS

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Gas revenue	**18,672**	15,912	17%
Gas royalties	**(341)**	(728)	-53%
Gas revenue, after royalties	**18,331**	15,184	21%
Average realized price, before financial instruments ($/MCF)	**2.33**	3.05	-24%
Realized gain (loss) on financial instruments ($/MCF)	**-**	-	-
Average realized price, after financial instruments ($/MCF)	**2.33**	3.05	-24%
Benchmark natural gas prices:			
NYMEX Henry Hub (US$/mmbtu)(1)	**2.05**	2.96	-31%
AECO 5A (CA$/GJ)(2)	**1.74**	2.60	-33%
NGX Station #2 Day Ahead Index (CA$/GJ)(3)	**1.33**	2.02	-34%
% of AECO 5A (CA$/GJ)	***76%***	*78%*	*-3%*
Platts Chicago City-Gates (US$/mmbtu)(4)	**2.04**	n/a	n/a
Platts Chicago City-Gates (CA$/mmbtu)(4)	**2.82**	n/a	n/a
% of AECO 5A (CA$/mmbtu)	***154%***	*n/a*	*n/a*

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

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

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

(4) Source: Platts Chicago City-Gates (US$/mmbtu) per Tidal Energy Marketing Inc. The Canadian dollar equivalent Chicago City-Gates price is calculated based on monthly average US$ price and the monthly average CA$/US$ exchange rate. Comparative information is not presented as the relevant contracts came into effect December 1, 2015.

The Company realized an average gas sales price of $2.33 per MCF during the quarter ended March 31, 2016, down 24% from $3.05 per MCF during the quarter ended March 31, 2015. By comparison, the AECO 5A gas index price fell by 33% over the same period, and averaged $1.74 per GJ during the first three months of 2016. Overall, Kelt receives a premium to the AECO 5A gas index price due to the higher heat content of its gas production.

Effective December 1, 2015, Kelt entered into gas sales agreements in BC and Alberta with 22,803 MMBTU per day of firm transportation on the Alliance pipeline, pursuant to which, Kelt receives Chicago City-Gates pricing. The Canadian dollar equivalent Chicago City-Gates price averaged $2.82 per MMBTU during the first quarter of 2016, representing a significant premium to AECO 5A and Station 2 prices. Approximately two-thirds of the Company's gas production from its Inga-Fireweed-Stoddart assets was sold under these contracts during the first quarter of 2016, resulting in stronger realized prices compared to previous periods in which the majority of Kelt's BC gas production was sold at Station 2 or CREC prices. The impact of the higher realized gas price on Kelt's funds from operations is partially offset by higher tolls on the Alliance pipeline, which are presented as transportation expense.

Gas royalties averaged 1.8% during the quarter ended March 31, 2016 compared to 4.6% during the previous quarter ended March 31, 2015. Lower gas royalties reflect the significant decrease in gas prices as well as gas cost allowance credits which do not fluctuate with gas prices.

PRODUCTION EXPENSES

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015(1)	%
Production expense	**21,712**	17,184	26%
$ per BOE	**10.24**	11.93	-14%

(1) The presentation of comparative information has been revised. Details regarding the reclassification are set-forth under the heading of "*Change in Classification of Certain Production and Transportation Expenses"* in this MD&A.

The Company incurred production expenses of $21.7 million during the quarter ended March 31, 2016, up 26% from $17.2 million during the previous year, in conjunction with 46% growth in daily average production in the same period. As a result of the Company's continued operational initiatives and previous expenditures to construct and acquire strategic infrastructure, Kelt achieved a 14% reduction in per unit production expenses in the first quarter of 2016. During the first quarter of 2016, production expense averaged $10.24 per BOE, compared to $11.93 per BOE during the first quarter of 2015. The Company has activated water injection facilities in its core operating areas, significantly reducing salt water disposal costs.

TRANSPORTATION EXPENSES

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015(1)	%
Transportation expense	**5,739**	3,753	53%
$ per BOE	**2.71**	2.61	4%

(1) The presentation of comparative information has been revised. Details regarding the reclassification are set-forth under the heading of "*Change in Classification of Certain Production and Transportation Expenses"* in this MD&A.

The Company's per unit transportation expenses averaged $2.71 per BOE in the first quarter of 2016, up 4% from $2.61 per BOE in the same quarter of the previous year. Higher gas transportation costs more than offset lower oil transportation expenses.

Kelt has invested in infrastructure in its core areas and entered into oil marketing and transportation arrangements to pipeline connect the majority of the Company's oil production, reducing reliance on trucking. This has resulted in significant savings, as oil trucking has historically been unpredictable and expensive due to long wait times. The Company's oil transportation expenses averaged $1.73 per barrel during the three month period ended March 31, 2016, down 53% from $3.66 per barrel during the previous three month period ended March 31, 2015.

The Company's firm commitments for gas transportation on the Alliance pipeline came into effect December 1, 2015. Kelt incurs higher transportation expenses on these volumes, however, the tolls are more than offset by higher realized gas prices as Kelt receives Chicago City-Gates pricing, providing a premium to the gas price previously realized at CREC and Station 2.

FINANCING EXPENSES

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Interest and fees on bank debt	**2,236**	873	156%
Accretion of decommissioning obligations	**759**	542	40%
Financing expense	**2,995**	1,415	112%
Average bank debt outstanding	**196,266**	77,401	154%
Average interest rate on indebtedness	**4.0%**	3.3%	-21%
Interest and fees on bank debt ($/BOE)	**1.05**	0.61	72%

The Company has a revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions. As at March 31, 2016, the authorized borrowing amount available under the Credit Facility was $275.0 million. Financing expenses increased in the first quarter of 2016 in comparison to the corresponding period of 2015 due to higher average debt levels, partly attributed to the assumption of corporate indebtedness on the acquisition of Artek, compounded by the rapid decline in commodity prices. During the quarter ended March 31, 2016, amounts drawn under the Credit Facility were primarily in the form of bankers' acceptances ("BAs"). Kelt's average interest rate on outstanding indebtedness increased during the first quarter of 2016 as higher stamping fees on BAs more than offset the decrease in the Canadian Dollar Offered Rate ("CDOR") rate. Under the Credit Facility, BA stamping fees fluctuate based on a pricing grid and range from 2.0% to 3.5%, depending upon the Company's debt to cash flow ratio of between less than one and one tenth times to greater than three times. Fees on bank debt include commitment fees and standby charges on the undrawn facility. Additional information regarding the Credit Facility is provided under the heading of *"Capital Resources and Liquidity"*.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Salaries and benefits	**1,627**	1,095	49%
Other G&A expenses	**1,162**	801	45%
Gross G&A expense	**2,789**	1,896	47%
Overhead recoveries	**(902)**	(1,223)	-26%
G&A expense, net of recoveries	**1,887**	673	180%
Gross G&A ($ per BOE)	**1.32**	1.32	-
Net G&A ($ per BOE)	**0.89**	0.47	89%

The Company incurred total G&A expenses, before recoveries, of $2.8 million in the first three months of 2016, up from $1.9 million in the same period of 2015, in conjunction with the Company's significant growth. On a per unit basis, gross G&A expenses are unchanged at $1.32 per BOE (before recoveries) due to management's continued efforts to maintain a low cost structure.

G&A expenses are reported net of overhead recoveries, however, Kelt does not capitalize any direct G&A expenses. On a per unit basis, net G&A expense was $0.89 per BOE for the quarter ended March 31, 2016, compared to $0.47 per BOE in the same quarter of 2015. Kelt earned lower capital overhead recoveries in the current quarter due to significantly lower capital expenditures.

SHARE BASED COMPENSATION ("SBC")

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Stock options	**865**	1,331	-35%
Restricted share units	**528**	1,175	-55%
Total share based compensation expense	**1,393**	2,506	-44%
$ per BOE	**0.66**	1.74	-62%

Total SBC expense decreased in the quarter ended March 31, 2016, as the fair value of new stock options and RSUs granted is lower than previous periods. The significant decrease in SBC expense on a per unit basis reflects management's objective to provide long term incentives to employees and grow production, while minimizing the dilutive impact to shareholders. As at March 31, 2016, stock options and RSUs outstanding represent 4.3% of total shares outstanding, down from 4.7% of total shares outstanding at March 31, 2015.

EXPLORATION AND EVALUATION ("E&E") EXPENSES

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Expired mineral leases	**629**	477	32%
$ per BOE	**0.30**	0.33	-9%

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

DEPLETION AND DEPRECIATION

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Depletion of D&P assets	**40,717**	27,870	46%
Depreciation of corporate assets	**213**	163	31%
Total depletion and depreciation	**40,930**	28,033	46%
Depletion and depreciation ($/BOE)	**19.31**	19.46	-1%

The Company calculates depletion of development and production ("D&P") assets based on production relative to total proved reserves, for each depletion unit. The increase in the absolute level of depletion expense is due to an increase in the carrying value of assets subject to depletion, resulting from capital expenditures and acquisitions, in particular, the Artek Acquisition on April 16, 2015.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Realized gain (loss)	**(14)**	1,823	-101%
Unrealized gain (loss)	**123**	(2,034)	-106%
Gain (loss) on derivative financial instruments	**109**	(211)	-152%
$ per BOE	**0.05**	(0.15)	-133%

The Company has an interest rate swap fixing the CDOR at 0.925% on a notional $100.0 million per month from July 2015 to June 2017. The CDOR rate averaged 0.871% during the first quarter of 2016, resulting in a nominal realized loss in the period. During the previous quarter ended March 31, 2015, the Company had a financial derivative contract which fixed the price of OPIS-Conway propane. The contract was unwound in January 2015 for proceeds of US$1.5 million (CA$1.8 million).

At March 31, 2016, the following risk management contracts were outstanding:

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Interest Rate Swap	$100,000,000	CDOR	0.925%	April 1, 2016 to June 30, 2017	**(107)**
Derivative financial instrument liability					**(107)**

Fair value accounting for derivative financial instruments may cause significant fluctuations in the reported amounts of derivative financial instrument assets and liabilities as at the Statement of Financial Position date and the resultant magnitude of unrealized gains and losses. If the CDOR rate increases (decreases) by 10 basis points, the fair market value of the interest rate swap contract would increase (decrease) by approximately $0.1 million.

GAIN ON SALE OF ASSETS

On March 31, 2016, the Company completed a disposition of certain non-core assets located at Boundary Lake in northwestern Alberta, for cash consideration of $1.1 million (before closing adjustments) and reported a gain of $2.1 million. The carrying amount of decommissioning obligations disposed was $2.4 million, which exceeded the $1.4 million combined carrying amount of the E&E and D&P assets. At the time of disposition, production from the assets was approximately 16 BOE per day.

INCOME TAXES

The Company recognized a deferred tax recovery of $9.6 million during the first quarter of 2016, compared to a recovery of $1.6 million in the first quarter of 2015. A detailed analysis of the provision for deferred income taxes is included in note 12 of the consolidated interim financial statements. The analysis includes a reconciliation of the difference between the deferred income tax recovery reported relative to expected recovery calculated based on the statutory tax rate. The consolidated combined federal and provincial statutory tax rate averaged 26.6% during the quarter ended March 31, 2016, up from 25.1% during the previous quarter ended March 31, 2015. Effective July 1, 2015, the Alberta government increased the general corporate tax rate from 10% to 12%.

Kelt was not required to pay income taxes in the current or prior periods as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of March 31, 2016 are estimated to be approximately $976.0 million (December 31, 2015 – $958.0 million).

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(CA$ thousands, unless otherwise indicated)	**Q1 2016**	Q1 2015	%
Profit (loss) and comprehensive income (loss)	**(25,918)**	(16,524)	-57%
Weighted average common shares outstanding, basic (000s)	**168,824**	128,194	32%
Weighted average common shares outstanding, diluted (000s)(1)	**168,824**	128,194	32%
$ per common share, basic	**(0.15)**	(0.13)	-15%
$ per common share, diluted(1)	**(0.15)**	(0.13)	-15%
$ per BOE	**(12.23)**	(11.47)	-7%

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for the quarter ended March 31, 2016, the Company excluded the effect of stock options and RSUs as they were anti-dilutive. Therefore, the diluted weighted average is equal to the basic weighted average shares outstanding.

Kelt reported a loss of $25.9 million for the first quarter ended March 31, 2016. By comparison, Kelt reported a loss of $16.5 million in the corresponding period of 2015. Kelt experienced significant growth over the past year, reporting an increase in total assets by 31% to $1.3 billion at March 31, 2016, compared to $966.6 million at March 31, 2015. Despite achieving record production, up 46% from the first quarter of 2015, the Company's total revenue after royalties increased by only 8% as a result of the significant decline in commodity prices. The Company's growth resulted in higher total expenses, although Kelt is starting to realize a reduction in most expenses of a recurring nature on a per unit basis. Non-cash depletion and depreciation expense of $40.9 million for the quarter ended March 31, 2016, was a significant driver of the loss reported by Kelt, as the expense increased by $12.9 million compared to the quarter ended March 31, 2015 due to higher assets and production. The loss reported by Kelt for the first three months of 2016 is reduced by a gain of $2.1 million recognized on the disposition of a non-core property in northwestern Alberta.

FUNDS FROM OPERATIONS

The Company generated funds from operations of $6.0 million ($0.04 per common share, diluted) during the first quarter of 2016, down from $14.0 million ($0.11 per common share, diluted) in the same quarter of 2015. The decrease in funds from operations reflects the impact of the significant decline in commodity prices, with the CA$WTI oil price falling 24% and the AECO 5A gas price falling 33% over the same periods. The impact of lower realized prices on operating cash flow was compounded by higher total expenses required to support the 46% increase in production volumes over the same period. Funds from operations for the first quarter of 2016 benefited from the

Company's continued operational initiatives and previous expenditures on infrastructure, which resulted in a significant reduction in per unit production expenses and lower oil transportation expenses.

	Q1 2016		Q1 2015		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Oil and gas revenue	**40,398**	**19.06**	39,383	27.34	3%	-30%
Realized gain on financial instruments(1)	**-**	**-**	1,823	1.27	-	-
Royalties	**(2,859)**	**(1.35)**	(4,743)	(3.29)	-40%	-59%
Production expense	**(21,712)**	**(10.24)**	(17,184)	(11.93)	26%	-14%
Transportation expense	**(5,739)**	**(2.71)**	(3,753)	(2.61)	53%	4%
Operating income(2)	**10,088**	**4.76**	15,526	10.78	-35%	-56%
Financing expense(3)	**(2,236)**	**(1.05)**	(873)	(0.61)	156%	72%
G&A expense	**(1,887)**	**(0.89)**	(673)	(0.47)	180%	89%
Realized loss on financial instruments(4)	**(14)**	**(0.01)**	-	-	-	-
Funds from operations(5)	**5,951**	**2.81**	13,980	9.71	-57%	-71%
Basic ($ per common share)(6)	**0.04**		0.11		-64%	
Diluted ($ per common share)(6)	**0.04**		0.11		-64%	
Common shares outstanding (000s):						
Basic, weighted average	**168,824**		128,194		32%	
Diluted, weighted average	**168,869**		128,920		31%	

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

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

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

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

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

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

CAPITAL EXPENDITURES

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

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

(CA$ thousands)	**Q1 2016**	Q1 2015	%
Capital expenditures:			
Lease acquisition and retention	**740**	5,414	-86%
Geological and geophysical	**-**	7	-
Drilling and completion of wells	**13,331**	37,592	-65%
Facilities, pipeline and well equipment	**10,473**	29,345	-64%
Corporate assets	**8**	75	-89%
Capital expenditures, before A&D	**24,552**	72,433	-66%
Property acquisitions	**37**	5,267	-99%
Property dispositions	**(1,184)**	-	-
Total capital expenditures, net of dispositions	**23,405**	77,700	-70%

Kelt drilled 3 (2.5 net) wells during the three month period ended March 31, 2016, with an average working interest of 83%. In the same three month period of the previous year, Kelt drilled 7 (5.5 net) wells with an average working interest of 78%. During the first three months of 2016, the Company spent $10.5 million on infrastructure, primarily to equip and tie-in wells drilled and completed in the previous year and to optimize certain existing key infrastructure.

Acquisition of Artek Exploration Ltd.

On April 16, 2015, the Company closed the acquisition of Artek by acquiring all of the issued and outstanding common shares of Artek on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26,900,375 common shares of Kelt to the former shareholders of Artek. The Artek Acquisition was completed by way of a statutory plan of arrangement under the *Business Corporations Act* (Alberta), pursuant to which, Artek common shares were delisted from the TSX and Artek became a wholly-owned subsidiary of Kelt. Immediately following the Arrangement, a name change was effected to change the name of Artek to Kelt Exploration (LNG) Ltd. The acquisition of Artek consolidated the majority of Kelt's land acreage in its Inga-Fireweed-Stoddart, British Columbia core area to 100% working interest 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 resulted in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in northeastern BC.

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

(CA$ thousands, unless otherwise indicated)	
Number of Kelt common shares issued (thousands)	26,900
Fair value of Kelt common shares ($/share)[(1)]	$9.02
Fair value of common share consideration[(1)]	242,641
Settlement of pre-existing relationship[(2)]	(4,760)
Net consideration	**237,881**
Bank debt, net of working capital[(3)]	(101,185)
Exploration and evaluation assets	52,340
Property, plant and equipment	346,014
Decommissioning obligations	(11,966)
Deferred income tax liability	(31,412)
Fair value of net assets acquired	**253,791**
Gain on acquisition[(4)]	**15,910**

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

(2) Artek and Kelt were partners in joint operations. The settlement of the pre-existing relationship relates to $6.6 million of accounts payable by Kelt to Artek, net of $1.9 million of accounts receivable by Kelt from Artek, which were extinguished upon completion of the arrangement.

(3) The net working capital deficit includes $7.0 million of accounts receivable and accrued revenue, $0.4 million of deposits, $12.8 million of accounts payable and accrued liabilities (includes $0.9 million of additional royalties payable resulting from the BC Royalty Audit) and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid and terminated by Kelt at closing using borrowings available under Kelt's Credit Facility.

(4) The Company recognized a gain on the acquisition of Artek as the total fair value of net assets acquired exceeds the fair value of the consideration paid for Artek's shares by $15.9 million. The gain has been revised from $16.8 million previously reported in the Company's consolidated annual financial statements as at and for the year ended December 31, 2015, as a result of the BC Royalty Audit.

In March 2016, the British Columbia Ministry of Energy and Mining ("BC Ministry") completed a petroleum and natural gas by-products royalty audit, focused on NGLs and Sulphur Crown royalties, for the years 2011 to 2014 (the "BC Royalty Audit"). As a result of the BC Royalty Audit, it was determined that Artek's share of Crown royalties were miscalculated and underpaid by Artek for the years 2011 to 2014, resulting in a net settlement of approximately $0.9 million payable to the BC Ministry. If known at the time of acquisition, the additional royalties payable to the BC Ministry would have resulted in the recognition of additional liabilities as at April 16, 2015 and a reduction in the gain recorded on acquisition of Artek by approximately $0.9 million for the year ended December 31, 2015. Accordingly, the amounts previously reported for the Artek Acquisition have been revised to reflect new information obtained about the facts and circumstances that existed as of the acquisition date.

The effect of the revision to the Company's consolidated annual financial statements as at and for the year ended December 31, 2015 is summarized in the table below. The measurement period adjustment resulting from the BC Royalty Audit, is reflected in the interim financial statements as if the information was available as of the acquisition date. Accordingly, the Consolidated Statement of Financial Position as at December 31, 2015, presented for the comparative period in the consolidated interim financial statements as at March 31, 2016, has been revised.

As at and for the year ended December 31, 2015	**Previously Reported**	**Revision**	**Revised Comparative**
Gain on acquisition	16,774	(864)	**15,910**
Profit (loss) and comprehensive income (loss)	(140,175)	(864)	**(141,039)**
Profit (loss) per common share, basic and diluted	(0.91)	-	**(0.91)**
Cash provided by operating activities	63,010	-	**63,010**
Accounts payable and accrued liabilities	64,067	864	**64,931**
Retained earnings (deficit)	(134,662)	(864)	**(135,526)**
Working capital deficiency	34,525	864	**35,389**
Bank debt, net of working capital	212,095	864	**212,959**

CAPITAL RESOURCES AND LIQUIDITY

Kelt's capital management objective is to maintain a flexible capital structure to allow the Company to execute on its capital investment program and strategic growth plan, which may include opportunistic acquisitions if significant upside potential exists. The Company strives to actively manage its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As at March 31, 2016, Kelt's capital structure was comprised of shareholders' capital, bank debt and working capital.

The Board of Directors approves an annual capital expenditures budget which is regularly monitored and updated as necessary in response to changing capital requirements. Kelt actively manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. The Company's capital expenditures in the first three months of 2016 were funded by funds from operations and bank debt. Future capital expenditures will be funded through a combination of cash flow from operating activities and bank debt, supplemented with new equity or debt offerings.

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

	March 31, 2016	December 31, 2015
Bank debt	**214,360**	177,570
Working capital deficiency(1)	**15,930**	35,389
Bank debt, net of working capital(1)	**230,290**	212,959
Trailing funds from operations(2)(3)	**23,804**	44,688
Net bank debt to trailing funds from operations ratio(1)	**9.7**	4.8

(1) Comparative information for the year ended December 31, 2015 has been revised. Details regarding the revision are provided under the heading of *"Capital Expenditures"*. Kelt previously reported a debt to trailing funds from operation ratio of 4.7 times as at December 31, 2015.

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

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

Kelt targets a net bank debt to trailing funds from operations ratio of less than 2.0 times, however, during periods of low commodity prices, the Company may exceed this target. As a result of severely depressed commodity prices, which fell further in first quarter of 2016, Kelt's net bank debt to trailing funds from operations ratio was 9.7 times as at March 31, 2016.

In response to the current business environment of low commodity prices, Kelt has taken action to preserve its balance sheet and maintain liquidity over the long-term. In particular, the Company has moderated the pace of capital spending and short-term growth trajectory (compared to historical levels). Kelt's management and employees continue to focus on cost saving initiatives, both corporately and at the field level. In addition, subsequent to the quarter ended March 31, 2016, the Company raised gross proceeds of $22.1 million pursuant to a private placement of flow-through common shares and significantly reduced bank indebtedness by closing a distribution of $90.0 million aggregate principal amount of 5.0% convertible unsecured subordinated debentures that mature on May 31, 2021 (details of the foregoing are provided under the heading of *"Subsequent events"*). After giving effect to the financings completed subsequent to the quarter as well as Kelt's revised 2016 financial and operating guidance, the Company expects its net bank debt to trailing funds from operations ratio will decrease to 2.7 times at December 31, 2016 (assumes $50 million of funds from operations for 2016 and net bank debt of $137 million at December 31, 2016). Refer to additional information under the heading of *"Outlook and Guidance"* and to advisories regarding forward-looking statements.

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company strives to maintain sufficient unused bank credit lines to satisfy such working capital deficiencies. As at March 31, 2016, the Company's working capital deficit of $15.9 million combined with outstanding bank debt of $214.4 million, represented 84% of the authorized borrowing amount available under the Credit Facility of $275.0 million or 77% of the total Credit Facility commitment of $300.0 million. The $17.3 million increase in bank debt, net of working capital, from December 31, 2015 reflects capital spending for the period partially offset by proceeds of dispositions and funds from operations.

Credit Facility

The Company has a $300.0 million revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions, and the authorized borrowing amount was $275.0 million as at March 31, 2016. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and November of each year.

The current revolving period and borrowing base redetermination was extended from April 30, 2016 to May 31, 2016. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

Although management expects that the Company will not have a borrowing base shortfall and that the lenders will extend the Credit Facility on or before May 31, 2016, 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 alternate sources of debt or equity financing.

KEY DEBT RATIOS	**As at March 31, 2016**		As at December 31, 2015[2]	
(CA$ thousands, except as otherwise indicated)	**Amount**	**Ratio**	Amount	Ratio
Net bank debt to funds from operations ratio:				
Net bank debt[1]	**230,290**		212,959	
Funds from operations – trailing[3]	**23,804**		44,688	
Funds from operations – forecast[4],[5]	**50,000**		55,000	
Net bank debt to funds from operations – trailing		**9.7 x**		4.8 x
Net bank debt to funds from operations – forecast		**4.6 x**		3.9 x
Asset coverage ratio:				
Total assets	**1,268,268**		1,279,475	
Net bank debt[1]	**230,290**		212,959	
Asset coverage		**5.5 x**		6.0 x
Debt to equity ratio:				
Net bank debt[1]	**230,290**		212,959	
Shareholders' equity	**822,229**		846,754	
Debt to equity		**0.3 x**		0.3 x

(1) "Net bank debt" is calculated by adding the working capital deficiency to bank debt. Throughout this MD&A, the term "net bank debt" is used synonymously with, and is equal to, "bank debt, net of working capital".

(2) Certain comparative information has been revised, refer to information under the heading of *"Capital Expenditures"*.

(3) Trailing funds from operations is calculated by multiplying funds from operations reported for the first quarter of 2016 of $6.0 million and the fourth quarter of 2015 of $11.2 million, by a factor of 4.

(4) As of May 10, 2016, the date of this interim MD&A, forecast funds from operations for 2016 is estimated to be $50.0 million. Refer to additional information under the heading of *Outlook and Guidance,* as well as advisories regarding forward looking statements.

(5) As of March 7, 2016, the date of the annual MD&A as at and for the year ended December 31, 2015, forecast funds from operations for 2016 was estimated to be $55.0 million.

Shareholder's capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2016 there were 169.4 million common shares issued and outstanding (as at May 10, 2016, there are 174.1 million common shares outstanding). There are no preferred shares issued or outstanding.

As at March 31, 2016, officers, directors, and employees have been granted options to purchase 6.8 million common shares of the Company at an average exercise price of $7.18 per common share. In addition, there are 0.5 million RSUs outstanding. Options and RSUs outstanding at March 31, 2016 represented 4.3% of total common shares issued and outstanding. Additional information regarding the Company's stock options and RSUs is included in note 11 of the consolidated interim financial statements.

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

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As of March 31, 2016, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2016	2017	2018	2019	2020	Thereafter
Operating lease – office buildings	996	1,347	563	108	18	-
Operating lease – vehicles	167	175	76	4	-	-
Firm processing commitments	4,962	4,591	-	-	-	-
Firm transportation commitments(1)	13,070	14,918	8,838	6,609	3,553	17,209
Total annual commitments	**19,195**	**21,031**	**9,477**	**6,721**	**3,571**	**17,209**

(1) A portion of Kelt's commitments on the Alliance pipeline are denominated in US dollars. The volumes committed vary over the term of the contracts, which are effective until October 31, 2017, however, the maximum US denominated commitment in a given month does not exceed US$0.31 million. Amounts are translated to Canadian dollars at the spot rate on March 31, 2016 of CA$/US$1.2987.

The Company has firm commitments for oil and gas transportation on major pipelines in Alberta and British Columbia. For periods subsequent to 2020, Kelt has an annual commitment of $1.4 million for gas transportation until March 31, 2026 and an annual commitment of $1.5 million for oil transportation until June 30, 2027.

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

RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the quarter ended March 31, 2016, the Company incurred $0.1 million (2015 – $0.3 million) in legal fees and disbursements, of which, less than $0.1 million is payable at March 31, 2016 ($0.1 million at December 31, 2015). The Company expects to continue using the services of this law firm from time to time.

SUBSEQUENT EVENTS

Flow-Through Share Private Placement

On April 7, 2016, the Company closed a private placement of 4.7 million common shares for gross proceeds of $22.1 million. The common shares were issued on a "flow-through" basis in respect of Canadian development expenses at a price of $4.70 per share, resulting in a premium of $0.55 per share. After estimated expenses related to the private placement, net proceeds to Kelt were approximately $22.0 million.

Progress Property Acquisition

On April 28, 2016, the Company closed an acquisition of oil and gas assets in its core area at Progress, Alberta, for cash consideration of $18.8 million, before closing adjustments. The acquisition includes approximately 600 BOE per day of current production (60% light oil), 4,135 net acres of land, and infrastructure that is an integral part of Kelt's existing light oil play at Progress. Based on a preliminary analysis, the purchase price is expected to be allocated as follows:

Estimated acquisition date fair value of consideration paid and net assets acquired:	
Exploration and evaluation assets	252
Property, plant and equipment	18,912
Decommissioning obligations	(247)
Fair value of net assets acquired(1)	**18,917**
Cash consideration, after estimated closing adjustments(2)	**18,917**

(1) 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 the interim financial statements. Actual amounts recognized by the Company once the acquisition accounting is finalized may differ materially from these estimates.

(2) The acquisition had an effective date of January 1, 2016. Adjustments during the period between the effective date and closing on April 28, 2016 were estimated to be $0.9 million based on a preliminary statement of adjustments.

Convertible Debenture Offerings

On May 3, 2016, the Company issued $90.0 million principal amount of convertible subordinated unsecured debentures (the “Debentures”) at a price of $1,000 per Debenture, of which, $75.0 million of principal amount was issued pursuant to a “bought deal” public offering through a syndicate of underwriters. In conjunction with the public offering, the Company completed a non-brokered private placement of a $15.0 million principal amount of Debentures at a price of $1,000 per Debenture, to certain directors, officers and employees of the Company, along with certain other subscribers. Net proceeds from the debenture offerings of approximately $86.5 million, have been used initially to pay down existing bank indebtedness under the Credit Facility, and thereafter, will be used for general corporate and working capital purposes.

The Debentures will mature and be repayable on May 31, 2021 (the “Maturity Date”) and will accrue interest at the rate of 5.0% per annum payable semi-annually in arrears on May 31st and November 30th of each year (each an “Interest Payment Date”), commencing on November 30, 2016. At the holder’s option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share, subject to adjustment in certain events (the “Conversion Price”). This represents a conversion rate of approximately 181.8182 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

The Debentures will be direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

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

SUMMARY OF QUARTERLY RESULTS

(CA$ thousands, except as otherwise indicated)	**Q1 2016**	Q4 2015	Q3 2015	Q2 2015
Revenue, before royalties and financial instruments	**40,398**	42,797	45,015	52,131
Funds from operations	**5,951**	11,172	16,601	14,701
Per share – basic ($/common share)	**0.04**	0.07	0.10	0.10
Per share – diluted ($/common share)	**0.04**	0.07	0.10	0.09
Profit (loss) and comprehensive income (loss)	**(25,918)**	(94,109)	(22,135)	(8,271)[1]
Per share – basic ($/common share)	**(0.15)**	(0.56)	(0.13)	(0.05)[1]
Per share – diluted ($/common share)	**(0.15)**	(0.56)	(0.13)	(0.05)[1]
Total assets	**1,268,268**	1,279,475	1,365,007	1,366,676
Bank debt	**214,360**	177,570	147,801	224,221
Working capital deficiency (surplus)	**15,930**	35,389[1]	35,320[1]	26,695[1]
Shareholders' equity	**822,229**	846,754[1]	938,780[1]	871,783[1]
Average daily production (BOE/d)	**23,295**	20,086	18,695	19,473
Average realized price, after financial instruments ($/BOE)	**19.06**	22.01	25.71	29.57
Operating netback ($/BOE)	**4.76**	8.05	11.52	10.23
Netback as a percentage of revenue	**25%**	37%	45%	35%

(1) Certain comparative information has been revised, refer to information under the heading of "*Capital Expenditures*".

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

Over the past eight consecutive quarters, the Company has consistently increased its production through the efficient execution of its capital program as well as by completing strategic acquisitions in its core areas, including the Artek Acquisition on April 16, 2015. In addition to cash provided by operating activities, the Company's capital expenditures were funded primarily through equity financings, and supplemented by bank debt. The fourth quarter of 2014 marked the beginning of the rapid, industry wide decline in commodity prices. The effect of which is clearly reflected in the Company's operating results and financial position in subsequent quarters. Notably, the loss reported in the fourth quarter of 2015 includes an impairment of PP&E of $64.1 million and an impairment of goodwill of $18.2 million, which were both triggered by the significant decrease in forecast commodity prices as at December 31, 2015. Refer to the *"Results of Operations"* section of this MD&A for further discussion. Additional information relating to Kelt, including the Company's MD&A for previous quarters, is filed on SEDAR and can be viewed at www.sedar.com.

NON-GAAP MEASURES

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

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

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

(CA$ thousands, except as otherwise indicated)	**Q1 2016**	Q1 2015	%
Cash provided by (used in) operating activities	**(127)**	12,357	-101%
Transaction costs	**-**	91	-
Change in non-cash working capital	**6,078**	1,532	297%
Funds from operations	**5,951**	13,980	-57%

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

(CA$ thousands, except as otherwise indicated)	**Q1 2016**	Q1 2015	%
Oil and gas revenue	**40,398**	39,383	3%
Realized gain on financial instruments(1)	**-**	1,823	-
Royalties	**(2,859)**	(4,743)	-40%
Production expenses	**(21,712)**	(17,184)	26%
Transportation expenses	**(5,739)**	(3,753)	53%
Operating income	**10,088**	15,526	-35%
Production (mBOE)	**2,120**	1,440	47%
Operating netback ($/BOE)	**4.76**	10.78	-56%

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

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

The Company discloses certain key debt ratios in the *Capital Resources and Liquidity* section of the MD&A, including a "net bank debt to funds from operations ratio", an "asset coverage ratio" and a "debt to equity ratio", all of which, are non-GAAP financial measures. Management believes that these ratios provide investors with additional information to understand the Company's capital structure and liquidity risk. In particular, the Company uses the "net bank debt to trailing funds from operations ratio" as a benchmark on which management monitors the Company's capital structure and short-term financing requirements. The "net bank debt to trailing funds from operations ratio" is also indicative of the "debt to cash flow" calculation used to determine the applicable margin for a quarter under the Company's Credit Facility agreement (though the calculation may not always be a precise match, it is representative). "Net bank debt" is calculated by adding (subtracting) the working capital deficiency (surplus) to (from) bank debt. Throughout this MD&A, the term "net bank debt" is used synonymously with, and is equal to, "bank debt, net of working capital". "Asset coverage" is calculated as total assets (as determined in accordance with GAAP), divided by net bank debt (as defined herein). "Debt to equity" is calculated as net bank debt (as defined herein), divided by total shareholders' equity (as determined in accordance with GAAP).

OTHER MEASUREMENTS

All dollar amounts are referenced in thousands of Canadian dollars, except when noted otherwise. This MD&A contains various references to the abbreviation BOE which means barrels of oil equivalent. Where amounts are expressed on a BOE basis, natural gas volumes have been converted to oil equivalence at six thousand cubic feet per barrel and sulphur volumes have been converted to oil equivalence at 0.6 long tons per barrel. The term BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet per barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and is significantly different than the value ratio based on the current price of crude oil and natural gas. This conversion factor is an industry accepted norm and is not based on either energy content or current prices. References to oil in this MD&A include crude oil and field condensate. References to natural gas liquids ("NGLs") include pentane, butane, propane, and ethane. References to gas in this discussion include natural gas and sulphur. Such abbreviation may be misleading, particularly if used in isolation.

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. The significant judgments, estimates and assumptions made by management in the interim financial statements are outlined in note 2 of the December 31, 2015 annual financial statements. There have been no significant changes in the Company's significant judgments and estimates applied during the interim period ended March 31, 2016 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2015, except for a revision related to the Artek Acquisition (details are provided in the *"Capital Expenditures"* section of this MD&A).

CHANGE IN CLASSIFICATION OF CERTAIN PRODUCTION AND TRANSPORTATION EXPENSES

During the previous year ended December 31, 2015, the Company reclassified certain charges that were previously presented as transportation expenses to production expenses. The Company concluded that a portion of the charges being incurred pursuant to a firm transportation contract and gas sales agreement related to upstream services, primarily gas gathering and processing fees, which are more appropriately presented as a production expense rather than transportation expense. The adjustment, which was recognized in the Company's financial statements during the fourth quarter of 2015, resulted in a total reclassification of production and transportation expenses previously reported by $1.8 million for the nine month period ended September 30, 2015. The reclassification has a net nil impact on cash flow provided by operating activities and profit (loss) and comprehensive income (loss) reported for the periods.

Production expenses	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015
Total expense – previously reported	16,786	24,070	17,247	n/a	n/a
Reclassification	398	668	733	n/a	n/a
Total expense – revised presentation	**17,184**	**24,738**	**17,980**	**17,012**	**76,914**
$ per BOE – previously reported	11.66	13.58	10.03	n/a	n/a
$ per BOE – revised presentation	**11.93**	**13.95**	**10.45**	**9.21**	**11.34**

Transportation expenses	Q1 2015	Q2 2015	Q3 2015	Q4 2015	YTD 2015
Total expense – previously reported	4,151	5,055	3,029	n/a	n/a
Reclassification	(398)	(668)	(733)	n/a	n/a
Total expense – revised presentation	**3,753**	**4,387**	**2,296**	**3,756**	**14,192**
$ per BOE – previously reported	2.88	2.85	1.76	n/a	n/a
$ per BOE – revised presentation	**2.61**	**2.48**	**1.34**	**2.03**	**2.09**

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no changes to the Company's internal controls over financial reporting during the interim period from January 1, 2016 to March 31, 2016 that have materially affected, or are reasonably likely to materially affect the company's internal controls over financial reporting.

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

BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company's operations or financial results. A discussion of the significant risk factors affecting the Company is included in Kelt's Annual Information Form dated March 11, 2016 which can be found at www.sedar.com.

BUSINESS OUTLOOK

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

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

RECENT DEVELOPMENTS

Alberta Modernized Royalty Framework

On April 21, 2016, the Government of Alberta released further details of the Alberta Modernized Royalty Framework (the "MRF") previously announced in the Royalty Review Advisory Panel Report dated January 29, 2016. The MRF will apply to wells drilled on or after January 1, 2017. Existing wells will continue to be governed by current royalty system for ten (10) years, after which time, the MRF will apply. The MRF will apply different royalty rates in three stages of the life cycle of a well, Pre-C*, Post-C*, and Post-C* Mature. Note that C* is the revised Drilling and Completion Cost Allowance which is based on industry average drilling and completion costs to be used as a proxy for well costs. Initially, a company will pay a flat 5% royalty on production until total revenue from the well equals C*. Once the C* threshold has been achieved the royalty rate will fluctuate with market pricing to a maximum of 40% on oil production and 36% on natural gas production, until monthly production from the well is below 40 boe/d (the "Maturity Threshold") where a quantity adjustment is introduced tying the royalty rate to reduced production levels. The quantity adjustment for natural gas has not been finalized and is expected to be released prior to May 29, 2016.

The intended outcome under the MRF is to provide industry with similar or better returns for wells under high and low prices and as good or better returns for Albertans. As royalty rates will not be tied to production until the well reaches the Maturity Threshold, highly productive wells will benefit. The full extent of the impact of the MRF on the Company's future financial condition and performance is still being evaluated, however, high productivity deep oil plays are expected to realize the most significant benefit under the new regime. Kelt is exposed to such plays in its core Montney oil development areas at Pouce Coupe, Progress, LaGlace and Karr. The Company's gas prospects appear to be value neutral under the MRF using current strip pricing.

CURRENT ECONOMIC ENVIRONMENT

The current economic environment continues to be challenging and uncertain. Increasing global crude oil supplies have surpassed global demand and as a result, crude oil prices have been negatively affected. North American winter demand for natural gas relating to heating was lower this past winter due to milder than normal winter conditions caused by the weather pattern "El Nino" resulting in excess amounts of natural gas storage at the end of the winter. In addition, natural gas infrastructure and capacity constraints continue to impact commodity prices being realized in domestic markets relative to world markets. In addition, uncertainties facing debt markets around the world could lead to tighter credit markets in the future. In this environment, Kelt continues to focus on maintaining a strong balance sheet, giving the Company the ability to take advantage of opportunities as they arise. The Company's capital expenditure program is also flexible, with the ability to defer expenditures into the future if the current economic environment deteriorates.

OUTLOOK AND GUIDANCE

The oil and gas industry in North America continues to operate in a challenging commodity price environment. Due to market instability and volatile commodity prices that have trended lower over the past twelve months, many oil and gas companies have reduced their capital spending plans. Ultimately, lower capital investment in oil and gas drilling can be expected to balance the supply and demand ratio. Kelt continues to remain optimistic about the long-term outlook for oil and gas commodity prices.

Kelt believes that the current business environment creates opportunities to add value at a reasonable cost. The cost to acquire land at Crown sales in the Company's core operating areas has dropped significantly and service related costs to drill and complete wells have also declined substantially. In order to capitalize on opportunities in the current energy business environment, Kelt expects to remain active at Crown land sales. The Company is opportunity driven and is confident that it can continue to build on its current inventory of development projects by adding new exploration prospects.

The table below outlines the Company's forecasted financial and operating guidance for 2016, updated from guidance previously disclosed in the Company's annual MD&A dated March 7, 2016.

(CA$ millions, except as otherwise indicated)	**Revised Guidance**	Previous Guidance	Change
Average Production			
Oil and NGLs (bbls/d)	**7,950**	7,360	8%
Gas (mmcf/d)	**81,300**	81,840	-1%
Combined (BOE/d)	**21,500**	21,000	2%
Production per million common shares (BOE/d)	**124**	124	0%
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**43.25**	39.00	11%
Canadian Light Sweet ($/bbl)	**51.05**	48.40	5%
NYMEX natural gas price (US$/MMBTU)	**2.35**	2.50	-6%
AECO natural gas price ($/GJ)	**1.90**	2.50	-24%
Forecasted Average Exchange Rate (US$/CA$)	**0.772**	0.730	6%
Capital Expenditures			
Drilling & completions	**41.0**	37.0	11%
Facilities, pipeline & well equipment	**15.0**	17.0	-12%
Land and seismic	**10.0**	11.0	-9%
Property acquisitions	**18.2**	-	-
Property dispositions	**(1.2)**	-	-
Total Capital Expenditures	**83.0**	65.0	28%
Funds from operations	**50.0**	55.0	-9%
Per common share, diluted	**0.29**	0.32	-9%
Bank debt, net of working capital, at year-end(1)	**137.0**	222.0	-38%
Weighted average common shares outstanding (millions)	**173**	169	2%
Common shares issued and outstanding (millions)	**174**	169	3%

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

Forecast average production of 21,500 BOE per day in 2016 represents a 16% increase from average production of 18,577 BOE per day in 2015 and is estimated to be weighted 37% to oil and NGLs and 63% to gas. However, based on the Company's forecasted commodity prices for 2016, 86% of forecasted operating income in 2016 is expected to be generated from oil and NGLs versus 14% from gas (previously, 81% of forecasted operating income in 2016 was expected to be generated from oil and NGLs versus 19% from gas).

During 2016, the Company is forecasting oil and gas prices to average WTI US$43.25 per barrel and AECO $1.90 per GJ, respectively. Sensitivities to changes in these prices are as follows: a 10% increase in the average WTI oil price forecast would increase funds from operations by $6.2 million or 12%; a 10% decrease in the average WTI oil price forecast would decrease funds from operations by $6.7 million or 13%; a 10% increase in the average AECO gas price forecast would increase funds from operations by $7.1 million or 14%; and a 10% decrease in the average AECO gas price forecast would decrease funds from operations by $7.4 million or 15%. The Company reviews its commodity price forecasts periodically and retains the flexibility to adjust its capital expenditure plans accordingly.

Royalties are expected to average 9.3% of oil and gas sales in 2016 (previously, 9.4%). During 2016, production and transportation expense (combined) is estimated to be $12.74 per BOE (previously, $13.06 per BOE), G&A expense is estimated to be $0.89 per BOE (unchanged from previous guidance) and interest expense is forecasted at $1.31 per BOE (previously, $1.07 per BOE).

After giving effect to the aforementioned production estimates, commodity price assumptions and estimated expenses: funds from operations for 2016 is forecasted to be approximately $50.0 million or $0.29 per common share, diluted. Kelt estimates that the Company's bank debt, net of working capital, will be approximately $137.0 million as at December 31, 2016.

Changes in forecasted commodity prices and variances in production estimates can have a significant impact on estimated funds from operations and profit. Please refer to the advisories regarding forward-looking statements and to the cautionary statement below.

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for 2016. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 11, 2016 is filed on SEDAR and can be viewed on their website at www.sedar.com. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President, Finance and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to the Company is also available on its website at www.keltexploration.com.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
May 10, 2016

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

(CA$ thousands)	[Notes]	**March 31, 2016**	December 31, 2015
			Revised [note 4]
ASSETS			
Current assets			
Cash and cash equivalents		**297**	870
Accounts receivable and accrued revenue	[13]	**23,581**	27,266
Prepaid expenses and deposits		**1,960**	2,129
Total current assets		**25,838**	30,265
Deferred income tax asset	[12]	**3,507**	-
Exploration and evaluation assets	[7]	**121,047**	124,305
Property, plant and equipment	[8]	**1,117,876**	1,124,905
Total assets		**1,268,268**	1,279,475
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**41,168**	64,931
Derivative financial instruments	[13]	**107**	230
Decommissioning obligations	[10]	**493**	493
Total current liabilities		**41,768**	65,654
Bank debt	[9]	**214,360**	177,570
Decommissioning obligations	[10]	**148,800**	142,308
Deferred income tax liability	[12]	**41,111**	47,189
Total liabilities		**446,039**	432,721
SHAREHOLDERS' EQUITY			
Shareholders' capital	[11]	**1,027,158**	1,022,115
Reserve from common control transaction		**(57,668)**	(57,668)
Contributed surplus		**14,183**	17,833
Retained earnings (deficit)		**(161,444)**	(135,526)
Total shareholders' equity		**822,229**	846,754
Total liabilities and shareholders' equity		**1,268,268**	1,279,475

Corporate acquisition	[4]
Commitments	[15]
Subsequent events	[19]

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Notes]	**2016**	2015
Revenue			
Oil and gas sales		**40,398**	39,383
Royalties		**(2,859)**	(4,743)
		37,539	34,640
Expenses			
Production	[17]	**21,712**	17,184
Transportation	[17]	**5,739**	3,753
Financing	[14]	**2,995**	1,415
General and administrative		**1,887**	673
Share based compensation	[11]	**1,393**	2,506
Exploration and evaluation	[7]	**629**	477
Depletion and depreciation	[8]	**40,930**	28,033
		75,285	54,041
Profit (loss) before other items and taxes		**(37,746)**	(19,401)
Transaction costs	[4]	**-**	(91)
Premium on flow-through shares	[11]	**-**	1,579
Gain (loss) on derivative financial instruments	[13]	**109**	(211)
Gain on sale of assets	[6]	**2,134**	-
Profit (loss) before taxes		**(35,503)**	(18,124)
Deferred income tax recovery	[12]	**(9,585)**	(1,600)
Profit (loss) and comprehensive income (loss)		**(25,918)**	(16,524)
Profit (loss) per common share			
Basic	[11]	**(0.15)**	(0.13)
Diluted	[11]	**(0.15)**	(0.13)

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

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

(CA$ thousands)	[Notes]	Shareholders' capital	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2015		**1,022,115**	**(57,668)**	**17,833**	**(135,526)**	**846,754**
Loss and comprehensive loss		**-**	**-**	**-**	**(25,918)**	**(25,918)**
Common shares issued:						
Vesting of restricted share units	[11]	**5,043**	**-**	**(5,043)**	**-**	**-**
Share based compensation	[11]	**-**	**-**	**1,393**	**-**	**1,393**
Balance at March 31, 2016		**1,027,158**	**(57,668)**	**14,183**	**(161,444)**	**822,229**
Balance at December 31, 2014		657,102	(57,668)	14,692	5,513	619,639
Loss and comprehensive loss		-	-	-	(16,524)	(16,524)
Common shares issued:						
Private placements	[11]	33,380	-	-	-	33,380
Less: deferred premium on flow-through shares	[11]	(2,872)	-	-	-	(2,872)
Share issue costs, net of tax	[11]	(421)	-	-	-	(421)
Vesting of restricted share units	[11]	4,581	-	(4,581)	-	-
Share based compensation	[11]	-	-	2,506	-	2,506
Balance at March 31, 2015		691,770	(57,668)	12,617	(11,011)	635,708

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

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

		Three months ended March 31	
(CA$ thousands)	[Notes]	**2016**	2015
Operating activities			
Profit (loss) and comprehensive income (loss)		**(25,918)**	(16,524)
Items not affecting cash:			
Accretion of decommissioning obligations	[10,14]	**759**	542
Share based compensation		**1,393**	2,506
Exploration and evaluation		**629**	477
Depletion and depreciation		**40,930**	28,033
Premium on flow-through shares		**-**	(1,579)
Unrealized (gain) loss on derivative financial instruments	[13]	**(123)**	2,034
Gain on sale of assets		**(2,134)**	-
Deferred income tax recovery		**(9,585)**	(1,600)
Change in non-cash operating working capital	[16]	**(6,078)**	(1,532)
Cash provided by (used in) operating activities		**(127)**	12,357
Financing activities			
Increase in bank debt		**36,790**	58,188
Issue of common shares		**-**	33,380
Share issue costs		**-**	(562)
Cash provided by financing activities		**36,790**	91,006
Investing activities			
Exploration and evaluation assets		**(9,784)**	(14,787)
Property, plant and equipment		**(14,768)**	(57,646)
Property acquisitions	[5]	**(37)**	(5,267)
Property dispositions	[6]	**1,184**	-
Change in non-cash investing working capital	[16]	**(13,831)**	(26,023)
Cash used in investing activities		**(37,236)**	(103,723)
Net change in cash and cash equivalents		**(573)**	(360)
Cash and cash equivalents, beginning of year		**870**	1,049
Cash and cash equivalents, end of period		**297**	689

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

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in west central Alberta and northeastern British Columbia. The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 as 1705972 Alberta Ltd. and was inactive until February 26, 2013. On October 19, 2012, Articles of Amendment were filed to change the name of the Company to Kelt Exploration Ltd. The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively.

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

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

2. BASIS OF PRESENTATION

These condensed consolidated interim financial statements were approved and authorized for issue by the Company's board of directors on May 10, 2016.

a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook – Accounting*. These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 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 13 of these financial statements.

c) Significant judgments and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2015 consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended March 31, 2016 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2015, except as described in note 4 regarding a revision to previously reported amounts for the Artek Acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2015 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2015.

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

The IASB has issued accounting standards that are not yet effective, including: IFRS 15 *Revenue from Contracts with Customers;* IFRS 9 *Financial Instruments; and* IFRS 16 *Leases*. Details of the foregoing are outlined in note 3 of the December 31, 2015 consolidated annual financial statements. There have been no changes as of the date of these condensed interim financial statements. The evaluation of all potential measurement and disclosure impacts is ongoing.

4. CORPORATE ACQUISITION

Acquisition of Artek Exploration Ltd.

On April 16, 2015, the Company closed the Artek Acquisition by acquiring all of the issued and outstanding common shares of Artek on the basis of 0.34 of a Kelt common share for each Artek common share, resulting in the issuance of 26,900,375 common shares of Kelt to the former shareholders of Artek. The acquisition of Artek consolidated the majority of Kelt's land acreage in its Inga-Fireweed-Stoddart, BC core area to 100% working interest and resulted in 100% ownership by Kelt in key infrastructure including compression facilities and pipelines in northeastern BC.

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

Number of Kelt common shares issued (thousands)	26,900
Fair value of Kelt common shares ($/share)(1)	9.02
Fair value of common share consideration(1)	242,641
Settlement of pre-existing relationship(2)	(4,760)
Net consideration	**237,881**
Bank debt, net of working capital(3)	(101,185)
Exploration and evaluation assets	52,340
Property, plant and equipment	346,014
Decommissioning obligations	(11,966)
Deferred income tax liability	(31,412)
Fair value of net assets acquired	**253,791**
Gain on acquisition(4)	**15,910**

(1) Pursuant to IFRS 3, the fair value of common share consideration is measured based on the share price on the closing date of the acquisition. The share exchange ratio of 0.34 was negotiated based on the volume weighted average trading price of Kelt common shares that traded on the TSX

during the five day period ended February 20, 2015 of $8.10 per share. If the negotiated price of $8.10 per share was used, the common share consideration would be valued at $217.9 million.

(2) Artek and Kelt were partners in joint operations. The settlement of the pre-existing relationship relates to $6.6 million of accounts payable by Kelt to Artek, net of $1.9 million of accounts receivable by Kelt from Artek, which were extinguished upon completion of the arrangement.

(3) The net working capital deficit includes $7.0 million of accounts receivable and accrued revenue, $0.4 million of deposits, $12.8 million of accounts payable and accrued liabilities (includes $0.9 million of additional royalties payable resulting from the BC Royalty Audit) and $13.7 million of bank overdraft. Pursuant to the change in control provisions in Artek's credit agreement, Artek's demand loan credit facility, on which $82.1 million was outstanding as of the closing date, was repaid and terminated by Kelt at closing using borrowings available under Kelt's Credit Facility.

(4) The Company recognized a gain on the acquisition of Artek as the total fair value of net assets acquired exceeds the fair value of the consideration paid for Artek's shares by $15.9 million The gain has been revised from $16.8 million previously reported in the Company's consolidated annual financial statements as at and for the year ended December 31, 2015, as a result of the BC Royalty Audit.

In March 2016, the British Columbia Ministry of Energy and Mining ("BC Ministry") completed a petroleum and natural gas by-products royalty audit, focused on NGLs and Sulphur Crown royalties, for the years 2011 to 2014 (the "BC Royalty Audit"). As a result of the BC Royalty Audit, it was determined that Artek's share of Crown royalties were miscalculated and underpaid by Artek for the years 2011 to 2014, resulting in a net settlement of approximately $0.9 million payable to the BC Ministry. If known at the time of acquisition, the additional royalties payable to the BC Ministry would have resulted in the recognition of additional liabilities as at April 16, 2015 and a reduction in the gain recorded on acquisition of Artek by approximately $0.9 million for the year ended December 31, 2015. Accordingly, the amounts previously reported for the Artek Acquisition have been revised to reflect new information obtained about the facts and circumstances that existed as of the acquisition date.

The effect of the revision to the Company's consolidated annual financial statements as at and for the year ended December 31, 2015 is summarized in the table below. The measurement period adjustment resulting from the BC Royalty Audit, is reflected in these interim financial statements as if the information was available as of the acquisition date. Accordingly, the Consolidated Statement of Financial Position as at December 31, 2015, presented for the comparative period herein these consolidated interim financial statements as at March 31, 2016, has been revised.

As at and for the year ended December 31, 2015	**Previously Reported**	**Revision**	**Revised Comparative**
Gain on acquisition	16,774	(864)	**15,910**
Profit (loss) and comprehensive income (loss)	(140,175)	(864)	**(141,039)**
Profit (loss) per common share, basic and diluted	(0.91)	-	**(0.91)**
Cash provided by operating activities	63,010	-	**63,010**
Accounts payable and accrued liabilities	64,067	864	**64,931**
Retained earnings (deficit)	(134,662)	(864)	**(135,526)**
Working capital deficiency	34,525	864	**35,389**
Bank debt, net of working capital	212,095	864	**212,959**

Transaction costs of approximately $2.4 million were recognized as an expense during the year ended December 31, 2015. In addition, $0.2 million of transaction costs directly attributable to the issuance of common share consideration, were charged to equity, net of deferred taxes.

5. PROPERTY ACQUISITIONS

The following table summarizes the aggregate fair value of net assets acquired pursuant to minor property acquisitions completed during the previous year ended December 31, 2015 and closing adjustments recorded during the interim period ended March 31, 2016:

	March 31, 2016	December 31, 2015
Exploration and evaluation assets	**-**	264
Property, plant and equipment	**37**	16,714
Decommissioning obligations	**-**	(628)
Fair value of net assets acquired	**37**	16,350
Cash consideration, after closing adjustments	**37**	16,350

6. PROPERTY DISPOSITIONS

On March 31, 2016, Kelt completed a minor disposition of certain non-core assets located in northwestern Alberta for cash proceeds of $1.1 million, before closing adjustments, resulting in a gain on sale of approximately $2.1 million.

The carrying values of assets and associated decommissioning obligations disposed during the three month period ended March 31, 2016 and previous year ended December 31, 2015, are summarized below.

	March 31, 2016	December 31, 2015
Exploration and evaluation assets	**(21)**	-
Property, plant and equipment	**(1,367)**	-
Decommissioning obligations	**2,338**	190
Carrying value of net (assets) liabilities disposed	**950**	190
Cash proceeds, after closing adjustments[1]	**1,184**	-
Gain on sale of assets[1]	**2,134**	190

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

7. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

	March 31, 2016	December 31, 2015
Balance, beginning of year	**124,305**	79,294
Additions	**9,784**	43,555
Corporate acquisition [note 4]	**-**	52,340
Property acquisitions [note 5]	**-**	264
Property dispositions [note 6]	**(21)**	-
Transfers to property, plant and equipment	**(12,392)**	(40,674)
Expired mineral leases	**(629)**	(3,117)
Impairments	**-**	(7,357)
Balance, end of period	**121,047**	124,305

The Company reviewed its E&E assets for indicators of potential impairment as at March 31, 2016. Except for $0.6 million of costs associated with the expiry of mineral leases which have been recognized as an expense during the three month period ended March 31, 2016, the Company concluded that there are no indicators of potential impairment of its E&E assets at March 31, 2016.

8. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	March 31, 2016	December 31, 2015
Development and production ("D&P") assets	**1,117,356**	1,124,180
Corporate assets	**520**	725
Total net carrying value of property, plant and equipment	**1,117,876**	1,124,905

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2014	899,407	1,028	900,435
Additions	122,240	810	123,050
Corporate acquisition [note 4]	346,014	-	346,014
Property acquisitions [note 5]	16,714	-	16,714
Decommissioning costs	33,173	-	33,173
Transfers from E&E	40,674	-	40,674
Balance at December 31, 2015	**1,458,222**	**1,838**	**1,460,060**
Additions	**14,760**	**8**	**14,768**
Property acquisitions [note 5]	**37**	**-**	**37**
Property dispositions [note 6]	**(4,748)**	**-**	**(4,748)**
Decommissioning costs	**8,071**	**-**	**8,071**
Transfers from E&E	**12,392**	**-**	**12,392**
Balance at March 31, 2016	**1,488,734**	**1,846**	**1,490,580**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2014	129,456	495	129,951
Depletion and depreciation expense	140,518	618	141,136
Impairments	64,068	-	64,068
Balance at December 31, 2015	**334,042**	**1,113**	**335,155**
Depletion and depreciation expense	**40,717**	**213**	**40,930**
Property dispositions [note 6]	**(3,381)**	**-**	**(3,381)**
Balance at March 31, 2016	**371,378**	**1,326**	**372,704**

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 $543.0 million (December 31, 2015 – $531.2 million) are included in the depletion calculation for development and production assets.

As a result of the significant decrease in forecast oil and natural gas prices during the previous year, the Company completed an impairment test for all cash generating units ("CGUs") as at December 31, 2015 and recognized an impairment of PP&E of $64.1 million and an impairment of the full goodwill balance of $18.2 million. As at March 31, 2016, the Company reviewed each CGU for indicators of possible impairment and concluded that there were no significant indicators of impairment during the interim reporting period.

9. BANK DEBT

	March 31, 2016	December 31, 2015
Bank loans	**25,200**	5,800
Bankers' acceptances	**190,000**	172,800
Unamortized financing fees(1)	**(840)**	(1,030)
Bank debt	**214,360**	177,570

(1) Includes $0.6 million of prepaid interest and stamping fees on bankers' acceptances as at March 31, 2016 ($0.6 million as at December 31, 2015).

The Company has a $300.0 million revolving committed term credit facility (the "Credit Facility") with a syndicate of financial institutions, and the authorized borrowing amount was $275.0 million as at December 31, 2015 and March 31, 2016. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and November of each year.

The current revolving period and borrowing base redetermination was extended from April 30, 2016 to May 31, 2016. In the event that the lenders reduced the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted dispositions (to a maximum in each calendar year which are in the aggregate not more than 5% of the borrowing base then in effect), permitted risk management activities (as more particularly described in note 13), permitted encumbrances and other standard business operating covenants. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $800.0 million and general assignment of book debts.

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

10. DECOMMISSIONING OBLIGATIONS

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

	March 31, 2016	December 31, 2015
Balance, beginning of year	**142,801**	94,791
Obligations incurred	**254**	1,807
Obligations acquired [notes 4, 5]	**-**	12,594
Obligations disposed [note 6]	**(2,338)**	(190)
Obligations settled	**-**	(383)
Changes in discount rates	**7,800**	33,664
Revisions to estimates	**17**	(2,298)
Accretion expense[1]	**759**	2,816
Balance, end of period	**149,293**	142,801
Current portion of decommissioning obligations	**(493)**	(493)
Long-term portion of decommissioning obligations	**148,800**	142,308

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

The key assumptions on which the carrying amount of the decommissioning obligations is based, include a risk-free rate of 2.0% (December 31, 2015 – 2.2%) and an inflation rate of 2.0% (December 31, 2015 – 2.0%). The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2016, the undiscounted amount of the estimated cash flows required to settle the obligation is $150.9 million (December 31, 2015 – $150.6 million), and is expected to be incurred over the next 50 years.

11. SHARE CAPITAL

Authorized

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

Issued and outstanding

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

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2014	126,934	657,102
Issued for cash through common share offering[1][2]	14,056	123,429
Deferred premium on flow-through shares[1]	-	(2,872)
Issued pursuant to Artek Acquisition [note 4]	26,900	242,641
Released upon vesting of restricted share units	778	5,231
Share issue costs, net of deferred income taxes ($1,258)	-	(3,416)
Balance at December 31, 2015	**168,668**	**1,022,115**
Released upon vesting of restricted share units	**750**	**5,043**
Balance at March 31, 2016	**169,418**	**1,027,158**

(1) During the first quarter of 2015, the Company completed non-brokered private placements of 3.881 million flow-through shares at a price of $8.60 per flow-through share, resulting in aggregate gross proceeds of $33.4 million. The implied premium on the flow-through shares was determined to be $2.9 million or $0.74 per flow-through share. Pursuant to the provisions of the *Income Tax Act* (Canada), the Company incurred eligible Canadian development expenses and renounced the qualifying expenditures to the subscribers of the flow-through shares on or before December 31, 2015, as required under the subscription agreements. The Company had fully satisfied its obligations and incurred the full commitment of $33.4 million as of December 31, 2015.

(2) On July 7, 2015, the Company issued 9.775 million common shares by way of a short-form prospectus and 0.4 million common shares on a non-brokered basis to certain directors and officers of the Company and their associates, at a price of $8.85 per share, providing gross proceeds of $90.0 million.

Subsequent to the quarter ended March 31, 2016, Kelt completed a non-brokered private placement of 4.7 million flow-through common shares providing gross proceeds of $22.1 million. Refer to note 19 *"Subsequent Events" for* additional information.

There are no preferred shares issued or outstanding as of March 31, 2016 (December 31, 2015 – nil).

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2014	4,927	8.38
Granted	1,845	4.85
Forfeited	(82)	9.32
Balance at December 31, 2015	**6,690**	**7.40**
Granted	**342**	**3.89**
Forfeited	**(199)**	**8.79**
Balance at March 31, 2016	**6,833**	**7.18**

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

	Three months ended March 31	
	2016	2015
Risk free interest rate	**0.7%**	0.7%
Expected life (years)	**3.7**	3.0
Expected volatility(1)	**50.8%**	40.3%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**0.8%**	3.1%
Fair value of options granted during the period ($/share)	**1.48**	2.00

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

The following table summarizes information regarding stock options outstanding at March 31, 2016:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $5.00	1,904	4.7	4.29	-	-
$5.01 to $10.00	3,778	2.7	7.00	2,661	6.81
$10.01 to $15.00	1,091	3.0	12.39	641	12.33
$15.01 to $20.00	60	3.2	15.40	20	15.40
Total	**6,833**	**3.3**	**7.18**	**3,322**	**7.93**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2014	1,762
Granted	247
Released upon vesting	(778)
Forfeited	(27)
Balance at December 31, 2015	**1,204**
Granted	**72**
Released upon vesting	**(750)**
Forfeited	**(33)**
Balance at March 31, 2016	**493**

Share based compensation expense

The total fair value associated with stock options and RSUs is recognized over the service period using graded vesting, resulting in share based compensation expense as follows:

	Three months ended March 31	
	2016	2015
Stock options	**865**	1,331
Restricted share units	**528**	1,175
Total share based compensation expense	**1,393**	2,506

Per share amounts

The table below summarizes the weighted average number of common shares outstanding. The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. Accordingly, in computing the diluted loss per common share for the each of the three month periods ended March 31, 2016 and 2015, respectively, the Company excluded the effect of stock options and RSUs as they were anti-dilutive.

(000s of common shares)	Three months ended March 31 2016	2015
Weighted average common shares outstanding, basic	**168,824**	128,194
Effect of stock options and RSUs	**45**	726
Weighted average common shares outstanding, diluted	**168,869**	128,920

12. INCOME TAXES

Kelt was not required to pay income taxes in the current or prior periods as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of March 31, 2016 are estimated to be approximately $976.0 million (December 31, 2015 – $958.0 million).

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

	Three months ended March 31 2016	2015
Profit (loss) before income taxes	**(35,503)**	(18,124)
Canadian statutory tax rate(1)	**26.6%**	25.1%
Expected income tax recovery	**(9,444)**	(4,549)
Increase (decrease) resulting from:		
Non-deductible expenses(2)	**378**	654
Recognition of unrecognized deferred tax asset	**(514)**	(478)
Qualifying expenditures on flow-through shares	**-**	3,092
Premium on flow-through shares	**-**	(396)
Change in tax rates	**-**	18
True-up of tax pools	**(5)**	59
Deferred income tax recovery	**(9,585)**	(1,600)

(1) The Canadian statutory tax rate used in the rate reconciliation represents the combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the provincial tax rate is 11.0% in British Columbia. Effective July 1, 2015, the Alberta government increased the general corporate tax rate from 10% to 12%.

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

	March 31, 2016	December 31, 2015
Deferred income tax asset	**3,507**	-
Deferred income tax liability	**(41,111)**	(47,189)
Net deferred income tax asset (liability)	**(37,604)**	(47,189)

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, 2015	Recognized in Loss and CL(1)	Recognized in balance sheet	**Balance at March 31, 2016**
Derivative financial instruments	62	(33)	-	**29**
PP&E and E&E	(136,416)	1,391	-	**(135,025)**
Decommissioning obligations	38,015	1,715	-	**39,730**
Share and debt issue costs	4,364	(390)	-	**3,974**
Reserve from common control transaction	(9,168)	514	-	**(8,654)**
Non-capital losses(2)	55,954	6,388	-	**62,342**
	(47,189)	9,585	-	**(37,604)**

(1) Comprehensive loss has been abbreviated as “CL”.

(2) The Company’s non-capital losses expire in years 2023 to 2035.

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the nature and timing of future capital expenditures and the Company's future operating results. In the next twelve months, the Company expects approximately $1.5 million of deferred income tax assets to be recovered related to temporary differences in respect of share and debt issue costs, provisions for potential credit losses and the derivative financial instrument liability. The Company does not expect any other deferred income tax assets or liabilities to reverse within the next twelve months.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, accounts receivable and accrued revenue, deposits, accounts payable and accrued liabilities, derivative financial instruments and bank debt. The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. Profit (loss), cash flows and the fair value of financial assets and liabilities may fluctuate due to movement in market prices or as a result of the Company's exposure to credit and liquidity risks.

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

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

Gains (losses) on risk management contracts in place during the three month periods ended March 31, 2016 and March 31, 2015, respectively, are outlined below:

	Three months ended March 31	
	2016	2015
Realized gain (loss)	**(14)**	1,823
Unrealized gain (loss)	**123**	(2,034)
Gain (loss) on derivative financial instruments	**109**	(211)

Commodity price risk management contracts

Inherent to the business of producing oil and gas, the Company's cash provided by operating activities is subject to commodity price risk. Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices 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 did not have any commodity price risk management contracts outstanding during the period ending or as at March 31, 2016.

Interest rate risk management contracts

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. Kelt had the following interest rate risk management contracts outstanding as of March 31, 2016:

Contract Type	Notional Amount	Reference Price	Fixed Contract Price	Remaining Term	Fair value Asset (Liability)
Interest Rate Swap	$100,000,000	CDOR	0.925%	April 1, 2016 to June 30, 2017	**(107)**

The fair value of the interest rate swap is sensitive to changes in the Canadian Dollar Offered Rate ("CDOR"). If the CDOR rate increases (decreases) by 10 basis points, the fair market value of the contract would increase (decrease) by approximately $0.1 million.

Foreign exchange risk management contracts

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing. The Company also has commitments for firm gas transportation service under contracts denominated in U.S. dollars as outlined in note 15. Exposure to foreign exchange rates is mitigating by entering U.S. dollar denominated commodity price or foreign exchange derivative financial instruments.

The Company did not have any U.S. dollar denominated commodity price contracts or foreign exchange contacts outstanding during the period ending or as at March 31, 2016.

Fair value measurements

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible. The fair value hierarchy has the following levels:

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

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

The fair value of cash and cash equivalents, accounts receivable and accrued revenue, deposits, accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. Bank debt bears interest at a floating market rate with applicable variable margins depending on the form of borrowing and changes in the Company's debt to cash flow ratio, and accordingly the fair market value of bank debt approximates the carrying amount.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at March 31, 2016:

	Carrying value ("CV")			Fair Value		
	Gross	Netting(1)	Net CV	Level 1	Level 2	Level 3
Financial liabilities						
Derivative financial instruments	107	-	107	-	(107)	-

(1) Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Kelt offsets derivative contracts assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. As at March 31, 2016, there are no offsetting derivative financial contracts.

Credit Risk

As at March 31, 2016, the carrying amount of cash and cash equivalents, accounts receivable and accrued revenue, and deposits represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

During the quarter ended March 31, 2016, sales to three oil and gas marketers each individually represented more than 10% of total revenue. Sales to these marketers account for approximately 37%, 25%, and 15% of total revenue, respectively. During the previous year ended December 31, 2015, sales to five oil and gas marketers accounted for approximately 23%, 17%, 15%, 13% and 11% of total revenue, respectively. Kelt has secured parental guarantees (with terms ranging from two to five years) or letters of credit covering approximately 75% its monthly credit exposure from oil and gas marketers, calculated based on average sales by purchaser for the first quarter of 2016.

Credit risk from joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

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

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

Accounts receivable and accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at March 31, 2016	**19,364**	**2,127**	**392**	**1,698**	**23,581**
Balance at December 31, 2015	23,071	1,836	783	1,576	27,266

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Due to the current business environment and low commodity prices, many oil and gas companies, including some of Kelt's partners, are facing significant financial challenges. Management has reviewed past due accounts receivable balances as at March 31, 2016 and expects the accounts to be collectible, except for approximately $1.0 million of accounts receivable which are provided for in the allowance for doubtful accounts. There were no significant changes to the Company's assessment of the recoverability of accounts receivable as at March 31, 2016, compared to the evaluation completed as at December 31, 2015. Accordingly, Kelt did not recognize any additional provisions for potential credit losses during the three month period ended March 31, 2016.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities include accounts payable, derivative financial instruments and bank debt. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at March 31, 2016:

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	41,168	-	-	41,168
Derivative financial instrument liability	107	-	-	107
Bank debt and estimated interest(1)(2)	8,608	215,884	-	224,492
Total	**49,883**	**215,884**	**-**	**265,767**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate of 4.0% for the first quarter ended March 31, 2016, applied to the principal balance outstanding as at that date. Principal repayment of the Company's revolving Credit Facility is assumed on April 29, 2017.

(2) On May 3, 2016, the Company issued $90.0 million aggregate principal amount of 5.0% convertible unsecured subordinated debentures, with a five year term maturing on May 31, 2021. Net proceeds from the debenture offerings of approximately $86.5 million, have been used initially to pay down existing bank debt under the Credit Facility (1). Refer to note 19 *"Subsequent events"* for additional information.

As at March 31, 2016, the Company's working capital deficit of $15.9 million combined with outstanding bank debt of $214.4 million, represented 84% of the authorized borrowing amount available under the Credit Facility of $275.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2016, and may be extended for an additional 364 days at the discretion of the lenders, with a term-out to April 29, 2017 if not renewed. The current revolving period and semi-annual borrowing base redetermination has been extended from April 30, 2016 to May 31, 2016. In an event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of a re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Although management expects that the Company will not have a borrowing base shortfall and that the lenders will extend the Credit Facility on or before May 31, 2016, 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 alternate sources of debt or equity financing.

Capital Management

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

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

	March 31, 2016	December 31, 2015
Bank debt	**214,360**	177,570
Working capital deficiency(1)	**15,930**	35,389
Bank debt, net of working capital(1)	**230,290**	212,959
Trailing funds from operations(2)(3)	**23,804**	44,688
Net bank debt to trailing funds from operations ratio(1)	**9.7**	4.8

(1) Comparative information for the year ended December 31, 2015 has been revised. Details regarding the revision are set-forth in note 4 of these interim financial statements. Kelt previously reported a net bank debt to trailing funds from operation ratio of 4.7 times as at December 31, 2015.

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

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

Kelt targets a net bank debt to trailing funds from operations ratio of less than 2.0 times. As a result of severely depressed commodity prices, Kelt's trailing debt to funds from operations ratio was 9.7 times as at March 31, 2016. 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.

Subsequent to the quarter ended March 31, 2016, the Company raised gross proceeds of $22.1 million pursuant to a private placement of flow-through common shares and significantly reduced bank indebtedness by closing a $90.0 million offering of convertible debentures. Refer to note 19 *"Subsequent events"* for additional information.

As more particularly described in note 9, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at March 31, 2016, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

14. FINANCING EXPENSES

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

	Three months ended March 31	
	2016	2015
Interest and fees on bank debt	**2,236**	873
Accretion of decommissioning obligations [note 10]	**759**	542
Financing expense	**2,995**	1,415

15. COMMITMENTS

As of March 31, 2016, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2016	2017	2018	2019	2020	Thereafter
Operating lease – office buildings	996	1,347	563	108	18	-
Operating lease – vehicles	167	175	76	4	-	-
Firm processing commitments	4,962	4,591	-	-	-	-
Firm transportation commitments(1)	13,070	14,918	8,838	6,609	3,553	17,209
Total annual commitments	**19,195**	**21,031**	**9,477**	**6,721**	**3,571**	**17,209**

(1) A portion of Kelt's commitments on the Alliance pipeline are denominated in US dollars. The volumes committed vary over the term of the contracts, which are effective until October 31, 2017, however, the maximum US denominated commitment in a given month does not exceed US$0.31 million. Amounts are translated to Canadian dollars at the spot rate on March 31, 2016 of CA$/US$1.2987.

The Company has firm commitments for oil and gas transportation on major pipelines in Alberta and British Columbia. For periods subsequent to 2020, Kelt has an annual commitment of $1.4 million for gas transportation until March 31, 2026 and an annual commitment of $1.5 million for oil transportation until June 30, 2027.

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

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2016**	2015
Accounts receivable and accrued revenue	**3,685**	2,197
Prepaid expenses and deposits	**169**	150
Accounts payable and accrued liabilities	**(23,763)**	(29,902)
Change in non-cash working capital	**(19,909)**	(27,555)
Relating to:		
Operating activities	**(6,078)**	(1,532)
Investing activities	**(13,831)**	(26,023)
Change in non-cash working capital	**(19,909)**	(27,555)

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

	Three months ended March 31	
Cash outlays in respect of interest and taxes	**2016**	2015
Interest and standby fees on bank debt	**2,685**	903
Taxes	**-**	-

17. CHANGE IN CLASSIFICATION OF CERTAIN PRODUCTION AND TRANSPORTATION EXPENSES

During the previous year ended December 31, 2015, the Company reclassified certain charges that were previously presented as transportation expenses to production expenses. The Company concluded that a portion of the charges being incurred pursuant to a firm transportation contract and a gas sales agreement related to upstream services, primarily gas gathering and processing fees, which are more appropriately presented as a production expense rather than transportation expense. The adjustment, which was recognized in the Company's financial statements during the fourth quarter of 2015, resulted in a total reclassification of production and transportation expenses previously reported by $1.8 million for the nine month period ended September 30, 2015. The presentation of production and transportation expenses reported for the year ended December 31, 2014 was not revised as the impact was nominal. The reclassification had a net nil impact on cash flow provided by operating activities and profit (loss) and comprehensive income (loss) reported for the periods.

	Three months ended March 31	
	2016	2015
Production expense	**-**	398
Transportation expense	**-**	(398)
Net impact on profit (loss) and comprehensive income (loss)	**-**	-
Net impact on cash flow provided by operating activities	**-**	-

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 quarter ended March 31, 2016, the Company incurred $0.1 million (2015 – $0.3 million) in legal fees and disbursements, of which, less than $0.1 million is payable at March 31, 2016 ($0.1 million at December 31, 2015). The Company expects to continue using the services of this law firm from time to time.

19. SUBSEQUENT EVENTS

Flow-Through Share Private Placement

On April 7, 2016, the Company closed a private placement of 4.7 million common shares for gross proceeds of $22.1 million. The common shares were issued on a "flow-through" basis in respect of Canadian development expenses at a price of $4.70 per share, resulting in a premium of $0.55 per share. After estimated expenses related to the private placement, net proceeds to Kelt were approximately $22.0 million.

Progress Property Acquisition

On April 28, 2016, the Company closed an acquisition of oil and gas assets in its core area at Progress, Alberta, for cash consideration of $18.8 million, before closing adjustments. The acquisition had an effective date of January 1, 2016. Based on a preliminary analysis, the purchase price is expected to be allocated as follows:

Estimated acquisition date fair value of consideration paid and net assets acquired:	
Exploration and evaluation assets	252
Property, plant and equipment	18,912
Decommissioning obligations	(247)
Fair value of net assets acquired(1)	**18,917**
Cash consideration, after estimated closing adjustments(2)	**18,917**

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

(2) The acquisition had an effective date of January 1, 2016. Adjustments during the period between the effective date and closing on April 28, 2016 were estimated to be $0.9 million based on a preliminary statement of adjustments.

Convertible Debenture Offerings

On May 3, 2016, the Company issued $90.0 million principal amount of convertible subordinated unsecured debentures (the "Debentures") at a price of $1,000 per Debenture, of which, $75.0 million of principal amount was issued pursuant to a "bought deal" public offering through a syndicate of underwriters. In conjunction with the public offering, the Company completed a non-brokered private placement of a $15.0 million principal amount of Debentures at a price of $1,000 per Debenture, to certain directors, officers and employees of the Company, along with certain other subscribers. Net proceeds from the debenture offerings of approximately $86.5 million, have been used initially to pay down existing bank indebtedness under the Credit Facility, and thereafter, will be used for general corporate and working capital purposes.

The Debentures will mature and be repayable on May 31, 2021 (the "Maturity Date") and will accrue interest at the rate of 5.0% per annum payable semi-annually in arrears on May 31st and November 30th of each year (each an "Interest Payment Date"), commencing on November 30, 2016. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share, subject to adjustment in certain events (the "Conversion Price"). This represents a conversion rate of approximately 181.8182 common shares for each $1,000 principal amount of Debentures, subject to certain anti-dilution provisions. Holders who convert their Debentures will receive accrued and unpaid interest for the period from the date of the latest Interest Payment Date immediately prior to the date of conversion.

The Debentures will be direct, subordinated unsecured obligations of the Company, subordinated to any senior indebtedness of the Company and ranking equally with one another and with all other existing and future subordinated unsecured indebtedness of the Company to the extent subordinated on the same terms.

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

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ABBREVIATIONS

bbls	barrels
mbbls	thousand barrels
bbls/d	barrels per day
BOE	barrels of oil equivalent
mBOE	thousand barrels of oil equivalent
BOE/d	barrels of oil equivalent per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mmcf/d	million cubic feet per day
mmbtu	million British Thermal Units
GJ	gigajoules
LT	long tonnes
AECO	Alberta Energy Company "C" Meter Station of the NOVA Pipeline System
WTI	West Texas Intermediate
NYMEX	New York Mercantile Exchange
CREC	Alliance Pipeline Canadian receipt location
Station 2	Spectra Energy receipt location
NGX	Natural Gas Exchange Inc. (Canada)
MD&A	Management's Discussion and Analysis
Q1	First quarter ended March 31st
Q2	Second quarter ended June 30th
Q3	Third quarter ended September 30th
Q4	Fourth quarter ended December 31st
YTD	Year to date
BT	Before income taxes
AT	After income taxes
1P	Proved reserves
2P	Proved plus probable reserves
BC	Province of British Columbia
CDE	Canadian development expenses
CGU	Cash generating unit
MRF	Modernized Royalty Framework (Alberta)

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 mmbtu = 1.054 GJ

0.949 mmbtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

Neil G. Sinclair [2, 3, 4, 5, 6]
President, Sinson Investments Ltd.

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

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

Douglas J. Errico
Vice President, Land

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

Ashley D. Hohm
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick Miles
Vice President, Exploration

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Toronto Stock Exchange
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Convertible Debentures “KEL.DB”

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