INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2018

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

(CA$ thousands)	[Notes]	**September 30, 2018**	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		**1,088**	3,695
Accounts receivable and accrued revenue	[11]	**39,193**	39,446
Prepaid expenses and deposits		**3,289**	2,005
Total current assets		**43,570**	45,146
Investment in securities	[11]	**1,000**	-
Exploration and evaluation assets	[5]	**128,273**	123,349
Property, plant and equipment	[6]	**1,205,271**	1,108,072
Total assets		**1,378,114**	1,276,567
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**83,248**	87,783
Deferred premium on flow-through shares	[10]	**-**	1,042
Decommissioning obligations	[9]	**1,314**	1,585
Total current liabilities		**84,562**	90,410
Bank debt	[7]	**135,054**	91,465
Convertible debentures	[8]	**77,350**	74,517
Decommissioning obligations	[9]	**139,407**	135,343
Deferred income tax liability		**52,466**	39,131
Total liabilities		**488,839**	430,866
SHAREHOLDERS' EQUITY			
Shareholders' capital	[10]	**1,119,162**	1,078,773
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[8]	**12,843**	12,856
Contributed surplus		**18,105**	20,218
Retained earnings (deficit)		**(203,167)**	(208,478)
Total shareholders' equity		**889,275**	845,701
Total liabilities and shareholders' equity		**1,378,114**	1,276,567
Commitments	[14]		

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands, except per share amounts)	[Notes]	**2018**	2017	**2018**	2017
Revenue					
Petroleum and natural gas revenue	[12]	**100,219**	56,422	**288,927**	176,719
Royalties		**(9,051)**	(5,107)	**(25,159)**	(16,372)
		91,168	51,315	**263,768**	160,347
Expenses					
Production		**22,443**	19,025	**67,118**	55,816
Transportation		**9,036**	5,691	**26,383**	18,129
Cost of purchases		**9,230**	-	**18,846**	-
Financing	[13]	**4,302**	3,680	**12,406**	10,476
General and administrative		**2,107**	1,645	**5,916**	5,296
Share based compensation	[10]	**1,416**	1,324	**4,364**	3,873
Exploration and evaluation	[5]	**1,398**	460	**3,495**	987
Depletion, depreciation and impairment	[6]	**35,754**	33,781	**112,078**	91,548
		85,686	65,606	**250,606**	186,125
(Loss) on derivative financial instruments	[11]	**-**	(507)	**-**	(457)
Foreign exchange gain (loss)		**(84)**	-	**228**	-
Premium on flow-through shares	[10]	**1,376**	-	**4,141**	798
Gain on sale of assets	[4]	**38**	23	**197**	1,586
Other income		**1,115**	-	**1,115**	-
Profit (loss) before taxes		**7,927**	(14,775)	**18,843**	(23,851)
Deferred income tax recovery (expense)		**(4,295)**	4,122	**(13,532)**	6,062
Profit (loss) and comprehensive income (loss)		**3,632**	(10,653)	**5,311**	(17,789)
Profit (loss) per common share					
Basic	[10]	**0.02**	(0.06)	**0.03**	(0.10)
Diluted	[10]	**0.02**	(0.06)	**0.03**	(0.10)

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

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

(CA$ thousands)	[Notes]	Shareholders' capital: Number of Shares (000s)	Shareholders' capital: Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2017		178,858	1,078,773	(57,668)	12,856	20,218	(208,478)	845,701
Profit and comprehensive income		-	-	-	-	-	5,311	5,311
Common shares issued, net of costs:								
Private placements	[10]	2,758	24,776	-	-	-	-	24,776
Premium on flow-through shares	[10]	-	(3,099)	-	-	-	-	(3,099)
Share issue costs, net of tax	[10]	-	(541)	-	-	-	-	(541)
Conversion of convertible debentures	[8]	16	89		(13)			76
Exercise of stock options	[10]	2,081	17,694	-	-	(5,007)	-	12,687
Vesting of restricted share units	[10]	268	1,470	-	-	(1,470)	-	-
Share based compensation	[10]	-	-	-	-	4,364	-	4,364
Balance at September 30, 2018		**183,981**	**1,119,162**	**(57,668)**	**12,843**	**18,105**	**(203,167)**	**889,275**

Balance at December 31, 2016		175,672	1,055,959	(57,668)	12,856	17,454	(185,300)	843,301
Loss and comprehensive loss		-	-	-	-	-	(17,789)	(17,789)
Exercise of stock options	[10]	195	1,272	-	-	(313)	-	959
Vesting of restricted share units	[10]	181	1,712	-	-	(1,712)	-	-
Share based compensation	[10]	-	-	-	-	3,873	-	3,873
Balance at September 30, 2017		176,048	1,058,943	(57,668)	12,856	19,302	(203,089)	830,344

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

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	[Notes]	**2018**	2017	**2018**	2017
Operating activities					
Profit (loss) and comprehensive income (loss)		**3,632**	(10,653)	**5,311**	(17,789)
Items not affecting cash:					
Accretion of convertible debentures	[8,13]	**1,002**	899	**2,909**	2,606
Accretion of decommissioning obligations	[9,13]	**792**	743	**2,347**	2,207
Share based compensation		**1,416**	1,324	**4,364**	3,873
Exploration and evaluation		**1,398**	460	**3,495**	987
Depletion, depreciation and impairment		**35,754**	33,781	**112,078**	91,548
Unrealized gain on derivative financial instruments	[11]	**-**	548	**-**	127
Unrealized gain on foreign exchange		**1**	-	**1**	-
Premium on flow-through shares		**(1,376)**	-	**(4,141)**	(798)
Gain on sale of assets		**(38)**	(23)	**(197)**	(1,586)
Deferred income tax expense (recovery)		**4,295**	(4,122)	**13,532**	(6,062)
Settlement of decommissioning obligations	[9]	**(124)**	(201)	**(887)**	(1,028)
Change in non-cash operating working capital	[15]	**(16,871)**	1,638	**(16,085)**	4,679
Cash provided by operating activities		**29,881**	24,394	**122,727**	78,764
Financing activities					
Increase (decrease) in bank debt		**28,061**	28,398	**43,589**	(18,720)
Issue of common shares, net of costs	[10]	**-**	-	**24,038**	-
Proceeds on exercise of stock options	[10]	**1,312**	188	**12,687**	959
Cash (used in) provided by financing activities		**29,373**	28,586	**80,314**	(17,761)
Investing activities					
Exploration and evaluation assets		**(3,113)**	(12,996)	**(43,215)**	(39,243)
Property, plant and equipment		**(66,993)**	(62,892)	**(171,987)**	(139,228)
Property acquisitions		**(922)**	(67)	**(2,849)**	(67)
Property dispositions	[4]	**2,601**	22	**2,885**	106,339
Investment in securities	[11]	**-**	-	**(1,000)**	-
Change in non-cash investing working capital	[15]	**10,233**	23,614	**10,519**	11,896
Cash provided by (used in) investing activities		**(58,194)**	(52,319)	**(205,647)**	(60,303)
Foreign exchange on cash and cash equivalents		**(1)**	-	**(1)**	-
Net change in cash and cash equivalents		**1,059**	661	**(2,607)**	700
Cash and cash equivalents, beginning of period		**29**	599	**3,695**	560
Cash and cash equivalents, end of period		**1,088**	1,260	**1,088**	1,260

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

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in northwestern Alberta and northeastern British Columbia. Kelt's land holdings are located in two core areas, namely: (a) Grande Prairie (including Pouce Coupe, Wembley, Progress and La Glace), Alberta; and (b) Fort St. John (including Inga, Fireweed, Stoddart and Oak), British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd.), a wholly owned subsidiary of Kelt. 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 and Kelt LNG is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2.

2. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements for issue on November 8, 2018.

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, 2017.

b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 11 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, 2017 consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended September 30, 2018 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2017 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements at September 30, 2018 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, 2017.

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

New Accounting Policies

Revenue

Kelt adopted IFRS 15 *Revenue* from contracts with customers with a date of initial application of January 1, 2018 as detailed in note 12. IFRS 15 will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and other related interpretations. Kelt used the modified retrospective approach to adopt the new standard, electing to use a practical expedient to apply the standard retrospectively only to contracts that were not completed on January 1, 2017. There was no change or adjustment to the Company's consolidated financial statements as a result of the adoption of IFRS 15. However IFRS 15 contains additional disclosure requirements which are detailed in note 12.

Kelt recognizes revenue at a point in time when control of the product has been transferred to the customer and performance obligations have been satisfied. This is generally met when the customer obtains legal title to the product and physical delivery at a delivery point has taken place. Revenue is measured based on the consideration specified in the contracts the Company has with its customers.

Kelt evaluates its arrangements with 3rd parties and partners to determine if a principal or agent relationship exists. In making this evaluation, management considers if it maintains control of the product, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If an agency relationship exists, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the party from the transaction.

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

Investments in Securities

Investments in securities are classified as fair value through profit or loss. Investments in the securities of private entities are carried at fair value, which is estimated using values based on equity issuances and other indications of value from time-to-time (level three fair value hierarchy estimates).

Major maintenance expenditures

The costs of major maintenance associated with turnaround activities that benefit future years of operations are capitalized and depreciated over the period to the next major maintenance turnaround. All other maintenance costs are expensed as incurred.

Accounting standards issued but not yet effective

IFRS 16 *Leases,* is intended to replace IAS 17 and will bring fundamental changes for all companies, including Kelt, who lease assets. The new standard is effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted. The most significant financial reporting impacts of the changes include: all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria; the measurement and presentation of expenses will be impacted and replaced by the recording of depreciation and financing expenses; the amount of profit (loss) recognized in a period will likely change as the timing of expenses is accelerated when applying the new standard which uses a finance lease model compared to a straight line operating lease expense; and key ratios may be impacted with the introduction of lease assets and liabilities on the balance sheet and changes to the timing of expenses. Management is currently in the implementation phase of IFRS 16, with the impact on the Company's consolidated financial statements still being assessed; however the additional leases being brought on the balance sheet will likely be material.

4. PROPERTY DISPOSITIONS

The table below summarizes the aggregate proceeds received and carrying values of the assets and associated decommissioning obligations disposed during the nine months ended September 30, 2018 and year ended December 31, 2017, as well as the resulting net gain (loss) on sale in each period:

	September 30, 2018	December 31, 2017
Exploration and evaluation assets	**42**	7,310
Property, plant and equipment	**4,506**	102,985
Decommissioning obligations	**(1,860)**	(4,408)
Carrying value of net assets (liabilities) disposed	**2,688**	105,887
Cash proceeds, after closing adjustments (1)	**2,885**	116,323
Gain (loss) on sale of assets (1)	**197**	10,436

(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 or loss on the Karr Property Disposition ultimately recognized by the Company upon determination of final closing adjustments may differ from these estimates.

On July 31, 2018, the Company completed the disposition of the Leduc-Woodbend Cash Generating Unit (“CGU”) for $2.6 million after closing adjustments. The Leduc-Woodbend CGU had a carrying value of $2.6 million, resulting in a gain on sale of $0.05 million.

Karr Property Disposition

On January 18, 2017, Kelt completed the disposition of the majority of its oil and gas assets located in the Karr area of Alberta, for cash consideration of $100.0 million before adjustments with an effective date of January 1, 2017.

During the year ended December 31, 2017, Kelt completed dispositions of certain non-core assets for cash proceeds of $13.3 million, after closing adjustments. The assets and associated decommissioning obligations disposed had a net carrying value of approximately $2.8 million resulting in a gain on sale of $10.5 million (after estimated closing adjustments).

5. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

	September 30, 2018	December 31, 2017
Balance, beginning of period	**123,349**	120,166
Additions	**43,215**	42,627
Property acquisitions	**2,976**	531
Reclassification (to) from held for sale [note 4]	**-**	4,377
Property dispositions [note 4]	**(42)**	(7,310)
Transfers to property, plant and equipment	**(37,730)**	(35,731)
Expired mineral leases	**(3,495)**	(1,311)
Balance, end of period	**128,273**	123,349

The Company concluded that there are no indicators of potential impairment of its E&E assets at September 30, 2018.

6. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	September 30, 2018	December 31, 2017
Development and production ("D&P") assets	**1,204,669**	1,107,715
Corporate assets	**602**	357
Total net carrying value of property, plant and equipment	**1,205,271**	1,108,072

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, 2016	1,377,416	2,474	1,379,890
Additions	200,349	793	201,142
Reclassification (to) from held for sale [note 4]	163,166	-	163,166
Property dispositions [note 4]	(172,821)	-	(172,821)
Decommissioning costs	9,288	-	9,288
Transfers from E&E	35,731	-	35,731
Balance at December 31, 2017	**1,613,129**	**3,267**	**1,616,396**
Additions	**171,235**	**752**	**171,987**
Property acquisitions	**485**	-	**485**
Property dispositions [note 4]	**(25,217)**	**-**	**(25,217)**
Decommissioning costs	**3,581**	**-**	**3,581**
Transfers from E&E	**37,730**	**-**	**37,730**
Balance at September 30, 2018	**1,800,943**	**4,019**	**1,804,962**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	Total PP&E
Balance at December 31, 2016	379,770	1,943	381,713
Depletion and depreciation expense	126,531	967	127,498
Impairments, net of impairment reversals	6,864	-	6,864
Reclassification (to) from held for sale [note 4]	62,085	-	62,085
Property dispositions [note 4]	(69,836)	-	(69,836)
Balance at December 31, 2017	**505,414**	**2,910**	**508,324**
Depletion and depreciation expense	**108,571**	**507**	**109,078**
Dispositions	**(20,711)**	**-**	**(20,711)**
Impairments	**3,000**	**-**	**3,000**
Balance at September 30, 2018	**596,274**	**3,417**	**599,691**

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 $692.0 million (December 31, 2017 – $776.0 million) are included in the depletion calculation for development and production assets. At September 30, 2018, the balance of assets under construction not subject to depreciation or depletion was $52.2 million (December 31, 2017 – $13.5 million) and relate to the construction of a gas processing facility.

On July 31, 2018, the Company completed the disposition of the Leduc-Woodbend Cash Generating Unit ("CGU"), a non-core oil weighted property for $2.6 million after closing adjustments. The Leduc-Woodbend CGU had a net carrying value of $2.6 million (costs of $25.1 million, accumulated depletion, depreciation and impairment of $20.7 million, and abandonment obligations of $1.8 million), resulting in a gain on sale of $0.05 million. In the second quarter of 2018, the Leduc-Woodbend CGU was impaired by $3.0 million based on the sale in the third quarter of 2018.

7. BANK DEBT

	September 30, 2018	December 31, 2017
Bank loan	**1,100**	17,000
Bankers' acceptances	**135,000**	75,000
Prepaid interest and unamortized financing fees	**(1,046)**	(535)
Bank debt	**135,054**	91,465

The Company has a revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. On April 18, 2018 the facility was amended and the revolving period was extended to April 28, 2019. The authorized borrowing amount available under the Credit Facility was increased to $215.0 million from $185 million which includes an accordion feature giving the Company the right, with the consent of the lenders, to increase the commitments under the facility to $250 million with the existing lending syndicate or by adding additional lenders. The pricing grid range was amended to bank prime plus 0.5% to bank prime plus 2.5% (from 1.0% to 2.5% previously), and the stamping fee range was changed to 1.5% to 3.5% (from 2.0% to 3.5% previously) depending upon the Company's then current debt to cash flow ratio of between less than one half times to greater than three times.

The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants.

Subsequent to the quarter ended September 30, 2018, the Company and its lenders completed the semi-annual bank compliance review and amended the Credit Facility to increase the lenders commitments to $250.0 million.

8. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2016	90,000	70,978	12,856
Accretion of discount	-	3,539	-
Balance at December 31, 2017	**90,000**	**74,517**	**12,856**
Conversion of convertible debentures to equity	**(90)**	**(76)**	**(13)**
Accretion of discount	**-**	**2,909**	**-**
Balance at September 30, 2018	**89,910**	**77,350**	**12,843**

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

The Debentures are redeemable by the Company after May 31, 2019 and prior to May 31, 2020, in whole or in part, 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 provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending five trading days (the "Current Market Price") prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after May 31, 2020 and prior to the Maturity Date, the Debentures may be redeemed by the Company, in whole or in part 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.

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

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) (note 13). At September 30, 2018, the fair value of the Debentures was $145.8 million (note 11).

9. DECOMMISSIONING OBLIGATIONS

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

	September 30, 2018	December 31, 2017
Balance, beginning of period	**136,928**	128,047
Obligations incurred	**7,506**	6,624
Obligations acquired	**612**	-
Reclassification (to) from held for sale [note 4]	**-**	2,532
Obligations disposed [note 4]	**(1,860)**	(4,408)
Obligations settled	**(887)**	(1,512)
Changes in discount rate	**(4,819)**	2,221
Revisions to estimates	**894**	443
Accretion expense	**2,347**	2,981
Balance, end of period	**140,721**	136,928
Decommissioning obligations – current	**1,314**	1,585
Decommissioning obligations – non-current	**139,407**	135,343
Key Assumptions		
Risk free rate	**2.41%**	2.26%
Inflation rate	**2.0%**	2.0%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2018, the undiscounted amount of the estimated cash flows required to settle the obligation is $156.6 million (December 31, 2017 – $148.3 million), and is expected to be incurred over the next 50 years. Based on an inflation rate of 2.0%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $300.3 million at September 30, 2018 (December 31, 2017 – $282.0 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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 13).

10. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of September 30, 2018 (December 31, 2017 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2016	175,672	1,055,959
Issued for cash through common share offerings	2,585	20,605
Deferred premium on flow-through shares	-	(2,553)
Issued for cash on exercise of stock options	415	2,299
Transfer from contributed surplus on exercise of stock options	-	935
Released upon vesting of restricted share units	186	1,740
Share issue costs, net of deferred taxes ($103)	-	(212)
Balance at December 31, 2017	**178,858**	**1,078,773**
Issued for cash through common share offerings	**2,758**	**24,776**
Deferred premium on flow-through shares	**-**	**(3,099)**
Conversion of convertible debentures to common shares	**16**	**76**
Transfer from equity component of convertible debentures on conversion of convertible debentures to common shares	**-**	**13**
Issued for cash on exercise of stock options	**2,081**	**12,687**
Transfer from contributed surplus on exercise of stock options	**-**	**5,007**
Released upon vesting of restricted share units	**268**	**1,470**
Share issue costs, net of deferred taxes ($199)	**-**	**(541)**
Balance at September 30, 2018	**183,981**	**1,119,162**

Private placements of flow-through common shares

The table below summarizes flow-through common shares (“FTS”) issued pursuant to private placements during the nine months ended September 30, 2018 and the year ended December 31, 2017, and the cumulative amount of qualifying expenditures incurred and the Company’s outstanding commitments to incur eligible expenditures as at the end of the current reporting period.

(CA$ thousands, except as otherwise indicated)					Eligible Expenditures [1]			Expenditure Period End / Effective date of Renunciation
						As at September 30, 2018		
Closing Dates	# of FTS	Price per FTS	Gross Proceeds	Deferred Premium	Type	Incurred	Remaining	
October 11, 2017	**1.263 million**	**$7.75**	**9,785**	**896**	**CDE**	**9,785**	**-**	**December 31, 2017** **December 31, 2017**
October 27, 2017	**0.75 million**	**$7.75**	**5,811**	**615**	**CDE**	**5,811**	**-**	**December 31, 2017** **December 31, 2017**
October 27, 2017	**0.572 million**	**$8.75**	**5,009**	**1,042**	**CEE**	**5,009**	**-**	**December 31, 2018** **December 31, 2017**
April 27, 2018, April 30, 2018	**2.348 million**	**$8.85**	**20,778**	**2,324**	**CDE**	**20,778**	**-**	**December 31, 2018** **December 31, 2018**
April 27, 2018, April 30, 2018	**0.410 million**	**$9.75**	**3,998**	**775**	**CEE**	**3,998**	**-**	**December 31, 2018** **December 31, 2018**

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

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, typically vest in equal tranches over a three year period and have a maximum term of five years to expiry.

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2016	8,376	6.57
Granted	2,347	6.25
Exercised [1]	(415)	5.54
Forfeited	(414)	7.03
Balance at December 31, 2017	**9,894**	**6.51**
Granted	**446**	**7.85**
Exercised [1]	**(2,081)**	**6.10**
Forfeited	**(247)**	**6.94**
Expired	**(158)**	**7.39**
Balance at September 30, 2018	**7,854**	**6.67**

(1) The weighted average share price on the date stock options were exercised during the period ended September 30, 2018 was $7.74 per common share ($6.96 per common share on average during the year ended December 31, 2017).

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

	Nine months ended September 30	
	2018	2017
Risk free interest rate	**1.9%**	1.3%
Expected life (years)	**3.1**	3.5
Expected volatility [(1)]	**47.4%**	54.0%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.5%**	2.3%
Fair value of options granted during the year ($/share)	**2.70**	2.42

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

The following table summarizes information regarding stock options outstanding at September 30, 2018:

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	2,913	2.5	4.53	1,833	4.53
$5.01 to $10.00	4,008	3.0	6.85	1,990	7.10
$10.01 to $15.00	873	0.5	12.40	873	12.40
$15.01 to $20.00	60	0.7	15.40	60	15.40
Total	**7,854**	**2.5**	**6.67**	**4,756**	**7.19**

Restricted share units

Kelt has a restricted share unit plan that provides for granting of restricted share units ("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. RSUs typically vest in two equal tranches with the first half vesting after two years and the second half after three years.

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2016	720
Granted	325
Released upon vesting	(186)
Forfeited	(66)
Balance at December 31, 2017	**793**
Granted	**607**
Released upon vesting	**(268)**
Forfeited	**(30)**
Balance at September 30, 2018	**1,102**

Share based compensation expense

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Stock options	**902**	931	**3,022**	2,687
Restricted share units	**514**	393	**1,342**	1,186
Total share based compensation expense	**1,416**	1,324	**4,364**	3,873

Per share amounts

The table below summarizes the weighted average number of common shares outstanding used in the calculation of basic and diluted profit (loss) per common share:

	Three months ended September 30		Nine months ended September 30	
(000s of common shares)	**2018**	2017	**2018**	2017
Weighted average common shares outstanding, basic	**183,919**	176,013	**182,262**	175,875
Effect of stock options and RSUs	**2,530**	1,193	**2,057**	1,329
Effect of convertible debentures	**-**	-	**-**	-
Weighted average common shares outstanding, diluted	**186,449**	177,206	**184,319**	177,204

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 profit or loss per common share for the periods ended September 30, 2018 and 2017, the Company excluded the effect of stock options and RSUs as they were anti-dilutive. The common shares potentially issuable on conversion of the Debentures are also excluded as they were determined to be anti-dilutive for the quarter ended September 30, 2018.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

As at September 30, 2018, there are no commodity price risk management contracts outstanding. Subsequent to September 30, 2018 the Company entered into the following contracts:

Contract Type	Notional Volume	Reference Prices	Fixed Contract Price	Term
Financial Swap Natural Gas	10,000 MMBtu/d	NYMEX to Chicago Citygate Basis Differential	NYMEX Henry Hub less USD$0.14 per MMBtu	January 2019 to October 2019
Financial Swap Natural Gas	10,000 MMBtu/d	NYMEX to Union Dawn Basis Differential	NYMEX Henry Hub less USD$0.0975 per MMBtu	January 2019 to December 2019
Financial Swap Natural Gas	7,500 MMBtu/d	Sumas	USD$5.97 per MMBTU	November 2018 to March 2019

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. Based on average bank debt outstanding of $118.1 million during the first nine months of 2018, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) interest expense by $0.3 million.

As at September 30, 2018, there are no interest rate risk management contracts outstanding.

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing. In addition, the Company has natural gas marketing arrangements in place whereby Kelt receives revenue in U.S. dollars. The Company also has commitments for firm gas transportation service under contracts denominated in U.S. dollars as outlined in note 14. The Company may enter into derivative contracts to mitigate the impact of foreign currency fluctuations. As at December 31, 2017, there were no foreign exchange risk management contracts outstanding.

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

As at September 30, 2018, there are no foreign exchange risk management contracts outstanding. Subsequent to September 30, 2018 the Company entered into the following contract:

Contract Type	Notional Amount per month	Fixed Contract Price	Term
FX swap	US$1,000,000	CA$/US$ 1.3050	January 2019 to December 2019

Gains and losses on risk management contracts

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Realized gain (loss)	**-**	41	**-**	(330)
Unrealized gain	**-**	(548)	**-**	(127)
Gain on derivative financial instruments	**-**	(507)	**-**	(457)

Fair value measurements

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

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

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

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

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at September 30, 2018:

	Carrying Value ("CV")			Fair Value		
	Gross	Netting[(1)]	Net CV	Level 1	Level 2	Level 3
Financial assets						
Investment in securities	1,000	-	-	-	-	1,000
Financial liabilities						
Convertible debentures (note 8)	77,350	-	-	145,782	-	-

(1) Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Kelt offsets derivative contracts assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. As at September 30, 2018, there are no outstanding or offsetting derivative financial contracts.

Kelt's investment in securities includes an investment in a private corporation entered into during the first quarter of 2018. The estimated fair value of the Company's investments in the shares of private companies is based on equity issuances and other indications of value from time-to-time (level three fair value hierarchy inputs).

The fair value of the convertible debentures of $145.8 million as at September 30, 2018, is based on the closing market price of $162.00 per Debenture, being the price at which the Debentures last traded on the third quarter ending September 30, 2018, and represents the market value of the entire instrument. As at December 31, 2017, the fair value was $135.0 million based on the closing market price of $150.00 per Debenture at the end of the year.

Credit Risk

As at September 30, 2018, the carrying amount of cash and cash equivalents, accounts receivable and accrued revenue, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

The composition of the Company's accounts receivable is set out in the following table:

Accounts receivable and accrued revenue	September 30, 2018	December 31, 2017
Oil and gas marketers	**5,539**	30,996
Joint venture partners	**28,936**	3,654
GST input tax credits	**4,374**	4,419
Other	**344**	377
Accounts receivable and accrued revenue	**39,193**	39,446

During the nine months ended September 30, 2018, sales to two oil and gas marketers each individually represented more than 10% of total revenue. Sales to these marketers account for approximately 41% and 19% of total revenue, respectively. During the comparative period ended December 31, 2017, sales to three oil and gas marketers accounted for approximately 38%, 17%, and 11% of total revenue, respectively. Kelt's oil and gas marketers have either provided parental guarantees (with terms ranging from two to five years), provided letters of credit, or have been rated investment-grade by a reputable ratings agency for substantially all of the Company's monthly credit exposure.

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 30-90 days.

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to 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 Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Company uses a combination of historical and forward looking information to determine the appropriate loss allowance provision. The aging of the Company's accounts receivable and the loss allowance provision is determined as follows:

Accounts receivable and accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Gross accounts receivable	34,701	2,197	505	2,456	39,859
Estimated credit loss rate	0.5%	3.6%	5.3%	15.7%	
Loss allowance provision	(176)	(78)	(27)	(385)	(666)
Balance at September 30, 2018	**34,525**	**2,119**	**478**	**2,071**	**39,193**
Balance at December 31, 2017	37,889	325	189	1,043	39,446

The allowance for doubtful accounts provision as at December 31, 2017 reconciles to the opening loss allowance provision as at January 1, 2017 in the following table:

	Amount ($ thousands)
Allowance for doubtful accounts at January 1, 2017	789
Direct write-off of amounts included in provision	(123)
Allowance for doubtful accounts at December 31, 2017	**666**
Provisions for potential credit losses through profit or loss	-
Loss allowance balance at September 30, 2018	**666**

During the nine months ended September 30, 2018, there were no losses recognized in the Company's Consolidated Statement of Profit (Loss) and Comprehensive Income in relation to impaired receivables (December 31, 2017 – nil).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities include accounts payable, derivative financial instruments, bank debt and convertible debentures. The Company manages liquidity risk through prudent use of bank debt and an actively managed production and capital expenditure budgeting process. In addition, risk management contracts such as derivative financial instruments may be used from time to time. As discussed further under the *Capital Management* section to follow, Kelt targets a relatively low debt to trailing adjusted funds from operations ratio. To manage this, the Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements. The Company utilizes a control system with respect to authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at September 30, 2018, the Company's working capital deficit of $41.0 million combined with outstanding bank debt of $135.1 million, represented 70% of the authorized borrowing amount available under the Credit Facility of $250 million (down from 74% at December 31, 2017). The Credit Facility is available for a revolving period of 364 days, maturing on April 28, 2019, and may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

On April 18, 2018 the facility was amended and the revolving period was extended to April 28, 2019. The authorized borrowing amount available under the Credit Facility was increased to $215.0 million from $185 million which includes an accordion feature allowing the Company the right, with the consent of the lenders, to increase the commitments under the facility to $250 million with the existing lending syndicate or by adding additional lenders. The pricing grid range was amended to bank prime plus 0.5% to bank prime plus 2.5% (from 1.0% to 2.5% previously), and the stamping fee range was changed to 1.5% to 3.5% (from 2.0% to 3.5% previously) depending upon the Company's then current debt to cash flow ratio of between less than one half times to greater than three times.

Subsequent to the quarter ended September 30, 2018, the Company and its lenders completed the semi-annual bank compliance review and amended the Credit Facility to increase the lenders commitments to $250.0 million.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at September 30, 2018:

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	83,248	-	-	**83,248**
Bank debt and estimated interest(1)	4,997	135,054	-	**140,051**
Convertible debentures(2)	4,496	97,411	-	**101,907**
Total	**92,741**	**232,465**	**-**	**325,206**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate of 3.7% for the quarter ended September 30, 2018, applied to the principal balance outstanding as at that date. For purposes of this analysis, principal repayment of the Company's revolving Credit Facility is assumed to occur on April 28, 2019.

(2) The contractual maturity analysis includes semi-annual cash interest payments at the fixed coupon rate of 5.0%, assuming that the $89.9 million principal amount of the Debentures is outstanding for the full term to maturity on May 31, 2021, provided that: the equity conversion option is not first exercised by the holder; and that the Company does not elect to settle its financial obligation by issuing common shares instead of cash at redemption or maturity. Refer to additional information regarding the Debentures in note 8.

Capital Management

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

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

	September 30, 2018	December 31, 2017
Bank debt	**135,054**	91,465
Working capital deficiency	**40,992**	45,264
Net debt (1)	**176,046**	136,729
Trailing annualized adjusted funds from operations (2)(3)	**187,506**	131,592
Net debt to trailing adjusted funds from operations ratio (1)	**0.9**	1.0

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

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

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

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

The Company reduced its net debt to trailing adjusted funds from operations ratio to 0.9 times as at September 30, 2018 from 1.0 times at December 31, 2017.

As more particularly described in note 7, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at September 30, 2018, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

12. REVENUE

Kelt sells its oil, natural gas, and NGLs production pursuant to variable price contracts. The transaction price for variable priced contracts is based on a benchmark commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenues are typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point.

Kelt generates oil treating, gas processing, and other services income from fees charged to third parties provided at facilities where Kelt has an ownership interest. Kelt generates marketing revenue from the sales of third party volumes related to the Company's oil blending operations, with the production being sold under the same terms of the Company's variable oil price contracts discussed above.

In the first quarter of 2018, Kelt adopted IFRS 15 Revenue from contracts with customers as detailed in note 3, using modified retrospective approach. There was no change or adjustment to the Company's consolidated financial statements as a result of the adoption of IFRS 15.

The following table presents Kelt's production disaggregated by revenue source:

	Three months ended September 30		Nine months ended September 30	
(CA$ thousands, except as otherwise indicated)	**2018**	2017	**2018**	2017
Revenue, before royalties and financial instruments:				
Oil production	**54,886**	33,054	**166,000**	94,220
Oil treating and other	**868**	640	**2,394**	1,527
NGLs production	**10,691**	6,077	**29,651**	17,174
Gas production	**23,816**	15,496	**70,011**	61,075
Gas processing and other	**247**	1,155	**1,292**	2,723
Marketing revenue	**9,711**	-	**19,579**	-
Total revenue	**100,219**	56,422	**288,927**	176,719

Included in accounts receivable at September 30, 2018 is $5.5 million (December 31, 2017 - $31.0 million) of accrued oil and gas sales related to September 2018 production.

13. FINANCING EXPENSES

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	**2018**	2017
Interest on bank debt [note 7]	**1,375**	904	**3,786**	2,297
Interest on convertible debentures [note 8]	**1,133**	1,134	**3,364**	3,366
Accretion of convertible debentures [note 8]	**1,002**	899	**2,909**	2,606
Accretion of decommissioning obligations [note 9]	**792**	743	**2,347**	2,207
Financing expense	**4,302**	3,680	**12,406**	10,476

14. COMMITMENTS

As of September 30, 2018, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2018	2019	2020	2021	2022	Thereafter
Operating lease - office buildings	44	967	1,035	1,056	1,077	376
Operating lease - vehicles	99	322	173	41	-	-
Firm processing commitments	2,394	7,860	1,566	1,605	1,365	-
Firm transportation commitments (1)	8,235	33,677	27,163	23,009	22,508	180,533
Total annual commitments	10,772	42,826	29,937	25,711	24,950	180,909

(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 contract, which is effective until October 31, 2020, respectively. Amounts are translated to Canadian dollars at the spot rate on September 30, 2018 of CA$/US$1.2945.

Payments under the office building operating leases relate to the Company's head office in Calgary, Alberta, and field offices in Grande Prairie, Alberta and Fort St. John, British Columbia. The leases expire on April 30, 2023, February 28, 2020, and July 31, 2023, respectively, if not extended.

In July 2018, the Company entered into a letter of intent for firm processing of 75 mmcf per day of raw gas under a 10 year proposed take or pay arrangement. In August 2018, a firm take or pay processing agreement was entered into allowing Kelt an option to increase the firm processing up to an additional 95 mmcf/d and the option to extend the term up to 20 years. The take or pay arrangement is conditional upon the commissioning and construction of a processing facility which is expected to be on-stream in the fourth quarter of 2019. As the commissioning and construction of the facility has not yet been finalized, it has not been included in the commitment table above.

Kelt has also entered into a proposed firm processing agreement for 30 mmcf per day of raw gas under a five year proposed take or pay arrangement. This agreement is also subject to obtaining regulatory approvals and the construction of a processing facility which is expected to be on-stream in the third quarter of 2019. Subsequent to September 30, 2018, the operator of the processing facility obtained approvals from the Alberta Energy regulator for the construction and operation of the facility. As the commissioning and construction of the facility has not yet been finalized, it has not been included in the commitment table above.

During the third quarter of 2018 firm transportation commitments increased by $165 million over the entire commitment term from the second quarter of 2018. The increase in commitments is primarily due to take or pay commitments on the North Montney Mainline which is expected to be in-service in the second half of 2019.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
Changes in non-cash working capital	**2018**	2017	**2018**	2017
Accounts receivable and accrued revenue	**(4,327)**	3,220	**253**	5,449
Prepaid expenses and deposits	**(46)**	231	**(1,284)**	(1,167)
Accounts payable and accrued liabilities	**(2,265)**	21,801	**(4,535)**	12,293
Change in non-cash working capital	**(6,638)**	25,252	**(5,566)**	16,575
Relating to:				
Operating activities	**(16,871)**	1,638	**(16,085)**	4,679
Investing activities	**10,233**	23,614	**10,519**	11,896
Change in non-cash working capital	**(6,638)**	25,252	**(5,566)**	16,575

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

	Three months ended September 30		Nine months ended September 30	
Cash outlays in respect of interest and taxes	**2018**	2017	**2018**	2017
Interest and standby fees on bank debt	**1,425**	1,122	**4,348**	2,513
Interest on convertible debentures (1)	**-**	-	**2,244**	2,244
Taxes (2)	**-**	-	**-**	-

(1) Interest on the Debentures is payable semi-annually on May 31st and November 30th (note 8).

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

16. RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the nine months ended September 30, 2018, the Company incurred $0.4 million (2017 – $0.2 million) in legal fees and disbursements. The Company expects to continue using the services of this law firm from time to time.