



ANNUAL REPORT

AS AT AND FOR THE YEAR ENDED

DECEMBER 31, 2020

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| FINANCIAL AND OPERATIONAL HIGHLIGHTS (CA\$ thousands, except as otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|-----------|-------|------------------------|-----------|-------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| FINANCIAL | | | | | | |
| Petroleum and natural gas sales | 41,961 | 97,763 | -57 | 207,156 | 394,356 | -47 |
| Cash provided by operating activities | 3,288 | 35,396 | -91 | 59,279 | 162,488 | -64 |
| Adjusted funds from operations ⁽¹⁾ | 10,758 | 46,655 | -77 | 58,832 | 182,521 | -68 |
| Basic (\$/ common share) ⁽¹⁾ | 0.06 | 0.25 | -76 | 0.31 | 0.99 | -69 |
| Diluted (\$/ common share) ⁽¹⁾ | 0.06 | 0.25 | -76 | 0.31 | 0.99 | -69 |
| Profit (loss) and comprehensive income (loss) | 26,018 | (2,628) | -1090 | (324,807) | 6,572 | -5042 |
| Basic (\$/ common share) | 0.14 | (0.01) | -1500 | (1.73) | 0.04 | -4425 |
| Diluted (\$/ common share) | 0.14 | (0.01) | -1500 | (1.73) | 0.04 | -4425 |
| Total capital expenditures, net of dispositions | 24,470 | 63,983 | -62 | (353,957) | 315,624 | -212 |
| Total assets | 759,987 | 1,605,465 | -53 | 759,987 | 1,605,465 | -53 |
| Net bank debt (surplus) ⁽¹⁾ | (26,261) | 328,080 | -108 | (26,261) | 328,080 | -108 |
| Convertible debentures | - | 82,789 | -100 | - | 82,789 | -100 |
| Shareholders' equity | 603,684 | 923,062 | -35 | 603,684 | 923,062 | -35 |
| Weighted average shares outstanding (000s) | | | | | | |
| Basic | 188,551 | 184,763 | 2 | 188,093 | 184,302 | 2 |
| Diluted | 189,270 | 185,108 | 2 | 188,093 | 184,946 | 2 |
| OPERATIONS | | | | | | |
| Average daily production | | | | | | |
| Oil (bbls/d) | 4,057 | 9,900 | -59 | 7,057 | 9,361 | -25 |
| NGLs (bbls/d) | 2,722 | 4,888 | -44 | 4,161 | 4,490 | -7 |
| Gas (mcf/d) | 58,179 | 98,844 | -41 | 82,646 | 96,658 | -14 |
| Combined (BOE/d) | 16,476 | 31,262 | -47 | 24,992 | 29,961 | -17 |
| Production per million common shares (BOE/d) ⁽¹⁾ | 87 | 169 | -49 | 133 | 163 | -18 |
| Average realized price, before financial instruments ⁽¹⁾ | | | | | | |
| Oil (\$/bbl) | 50.30 | 63.25 | -20 | 40.80 | 66.94 | -39 |
| NGLs (\$/bbl) | 22.42 | 21.01 | 7 | 15.04 | 20.62 | -27 |
| Gas (\$/mcf) | 2.91 | 2.95 | -1 | 2.33 | 3.26 | -29 |
| Operating netbacks (\$/BOE) ⁽¹⁾ | | | | | | |
| Petroleum and natural gas sales | 27.69 | 33.99 | -19 | 22.65 | 36.06 | -37 |
| Cost of purchases | (1.28) | (1.35) | -5 | (0.92) | (1.53) | -40 |
| Average realized price, before financial instruments ⁽¹⁾ | 26.41 | 32.64 | -19 | 21.73 | 34.53 | -37 |
| Realized gain (loss) on financial instruments | (2.51) | (0.11) | 2182 | 0.99 | (0.08) | -1338 |
| Average realized price, after financial instruments ⁽¹⁾ | 23.90 | 32.53 | -27 | 22.72 | 34.45 | -34 |
| Royalties | (2.13) | (1.25) | 70 | (1.13) | (1.76) | -36 |
| Production expense | (9.54) | (9.09) | 5 | (9.56) | (9.18) | 4 |
| Transportation expense | (3.83) | (3.54) | 8 | (3.62) | (4.62) | -22 |
| Operating netback ⁽¹⁾ | 8.40 | 18.65 | -55 | 8.41 | 18.89 | -55 |
| Total landholdings | | | | | | |
| Gross acres | 800,270 | 1,053,445 | -24 | 800,270 | 1,053,445 | -24 |
| Net acres | 579,764 | 819,557 | -29 | 579,764 | 819,557 | -29 |
| Reserves – proved plus probable | | | | | | |
| Crude oil and liquids (mmbbls) ⁽²⁾ | 75,619 | 216,324 | -65 | 75,619 | 216,324 | -65 |
| Gas (mmcf) | 618,975 | 1,467,941 | -58 | 618,975 | 1,467,941 | -58 |
| Combined (mBOE) | 178,782 | 460,981 | -61 | 178,782 | 460,981 | -61 |

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

(2) "Liquids" include field condensate and NGLs.

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. (“Kelt” or the “Company”) reports its financial and operating results to shareholders for the fourth quarter and year ended December 31, 2020.

The energy sector experienced a tumultuous year in 2020 that began with the unprecedented impact to global oil demand destruction resulting from the COVID-19 pandemic, as well as excess oil supplies, as many oil producing nations ramped up oil production as they sought to gain global market share.

Kelt was pro-active and took several initiatives to preserve shareholder value during a period of economic uncertainty including cost-cutting measures, financial hedge contracts, production shut-ins and application to certain government programs.

On August 21, 2020, Kelt completed the sale of its Inga/Fireweed/Stoddart Division (the “Inga Assets”) for net cash proceeds of \$503.9 million. Proceeds from the sale of the Inga Assets were directed towards re-payment of outstanding amounts under the Company’s syndicated credit facility and towards the redemption of Kelt’s outstanding convertible debentures, leaving the Company with a positive working capital position at December 31, 2020.

Average production for the three months ended December 31, 2020 was 16,476 BOE per day, down 47% compared to average production of 31,262 BOE per day during the fourth quarter of 2019. Daily average production in the fourth quarter of 2020 was 7% higher than pro-forma (excluding production related to the Inga Assets) production of 15,444 BOE per day for the fourth quarter of 2019.

Kelt’s 2020 fourth quarter production exceeded its previous guidance for the quarter by 17% as the Company brought on-stream two Wembley/Pipestone wells earlier than anticipated. Production for the three months ended December 31, 2020 was weighted 41% to oil and NGLs and 59% to gas.

Kelt’s realized average oil price during the fourth quarter of 2020 was \$50.30 per barrel, down 20% from \$63.25 per barrel in the fourth quarter of 2019. The Company’s realized average NGLs price during the fourth quarter of 2020 was \$22.42 per barrel, up 7% from \$21.01 per barrel in the fourth quarter of 2019. Kelt’s realized average gas price for the fourth quarter of 2020 was \$2.91 per MCF, down 1% from \$2.95 per MCF in the fourth quarter of 2019.

For the three months ended December 31, 2020, revenue was \$42.0 million and adjusted funds from operations was \$10.8 million (\$0.06 per share, diluted), compared to \$97.8 million and \$46.7 million (\$0.25 per share, diluted) respectively, in the fourth quarter of 2019. At December 31, 2020, Kelt had no bank debt and a working capital surplus of \$26.3 million compared to net bank debt of \$328.1 million and outstanding convertible debentures of \$89.9 million at December 31, 2019.

Net capital expenditures incurred during the three months ended December 31, 2020 were \$24.5 million, down 62% compared to net capital expenditures of \$64.0 million during the fourth quarter of 2019. During the fourth quarter of 2020, the Company spent \$16.5 million on drill and complete operations and \$7.3 million on equipment, facilities and pipelines.

As at December 31, 2020, Kelt’s net working interest land holdings were 579,764 acres (906 sections). Kelt is focused on long-term value creation by accumulating significant land acreage on resource style plays, with a primary focus on the Triassic Montney oil and liquids-rich gas plays. At December 31, 2020, Kelt’s net Montney land holdings were 370,564 acres (579 sections). In addition, Kelt holds 74,714 net acres (117 sections) in the Triassic Charlie Lake play in Alberta.

At Oak/Flatrock, Kelt currently has two Montney wells that have been drilled, completed and tested and eight additional wells that have been drilled and are awaiting completion. The Company expects to construct a gas compression and oil battery facility at Oak during the third quarter of 2021 and expects to bring on production, ten new wells during October 2021.

At Pouce Coupe, Kelt drilled two high deliverability Montney gas wells during the fourth quarter of 2020 and subsequently, in early 2021, the Company completed and tied-in both wells. The two wells have initially come on-stream at a combined rate in excess of 20.0 MMcf per day. The Company has an inventory of 32 additional locations on its high deliverability gas land block at Pouce Coupe West.

At Wembley/Pipestone, Kelt currently has three Montney wells that have been drilled, completed and tested and two additional wells that have been drilled and are awaiting completion (“DUCs”). The Company expects to complete the two DUCs and tie-in the wells by mid-year 2021.

In anticipation of rising steel prices and given the upcoming completion programs, both at Oak and at Wembley, Kelt has pre-purchased casing and line pipe in order to mitigate higher capital costs.

Kelt has actively reduced its exposure to rental equipment in all of its areas of operation in an effort to reduce future operating expenses. Kelt is committed to its goal of being a low-cost producer.

With the strong performance in crude oil pricing, Kelt has revised its 2021 outlook and guidance. The Company has changed its 2021 forecasted average commodity prices to reflect current futures strip pricing as follows: WTI crude oil prices are expected to average US\$59.95 per barrel, up 56% from the previous forecast of US\$38.50 per barrel; and NYMEX Henry Hub natural gas prices are expected to average US\$2.82 per MMBtu, down 9% from the previous forecast of US\$3.10 per MMBtu. The Company will continue to monitor commodity prices and expects to provide updated 2021 guidance, if necessary, by mid-year.

Kelt has increased its 2021 capital expenditure program to \$120.0 million, up by 33% or \$30.0 million from its previous guidance. Production in 2021 is forecasted to average 19,000 BOE per day, up by 9% or 1,500 BOE per day from the Company's previous guidance. Adjusted funds from operations are forecasted to be \$107.0 million in 2021, up by 61% or \$40.5 million from Kelt's previous forecast. Kelt does not plan to have any bank debt at December 31, 2021. The Company's working capital surplus position is expected to be \$7.0 million at the end of 2021, up by 75% or \$4.0 million compared to the Kelt's previous forecast.

Kelt expects to report to shareholders its 2021 first quarter results on or about May 6, 2021.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
March 11, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

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 in Western Canada. Kelt's business plan is for long-term profitable growth by implementing a full cycle exploration and development program, with emphasis on low-cost land accumulation with the potential for high rates of return on capital invested. Kelt has an active exploration and development drilling program that it may complement with acquisitions and dispositions that optimize its asset base.

The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012. Kelt's assets are comprised of three core operating divisions, namely: (1) Wembley/Pipestone in Alberta; (2) Pouce Coupe/Progress/Spirit River in Alberta; and (3) Oak/Flatrock in British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd. ("Kelt LNG"), a wholly owned subsidiary of Kelt. The head office of the Company is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2. The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL". In the fourth quarter of 2020, all outstanding 5% convertible debentures of the Company were redeemed, with the convertible debentures being delisted from trading on the TSX effective October 5, 2020. Additional information relating to Kelt can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis ("MD&A") is dated March 11, 2021 and should be read in conjunction with the Company's audited consolidated annual financial statements and related notes as at and for the year ended December 31, 2020. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's Board of Directors approved and authorized the consolidated annual financial statements for issue on March 11, 2021.

GENERAL ADVISORY

This MD&A uses "funds flow", "adjusted funds from operations", "annualized quarterly adjusted funds from operations", "funds flow per common share", "netback", "operating netback", "Kelt revenue", "operating income", "net bank debt (surplus)", "total revenue", "average realized prices", "net bank debt (surplus) to annualized quarterly adjusted funds from operations ratio", "working capital deficiency (surplus)", "net debt (surplus) to cash flow", "finding, development and acquisition", "recycle ratio", "net asset value" and "net asset value per common share" which do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information and reconciliation to Canadian generally accepted accounting principles "GAAP" measures, see "*Non-GAAP Financial Measure and Other Key Performance Indicators*" in this MD&A.

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. The use of and of the words "will", "expects", "believe", "plans", "potential", "forecasts" and similar expressions are intended to identify forward-looking statements. Such forward-looking information is based upon certain expectations and assumptions and actual results may differ materially from those expressed or implied by such forward-looking information. For further information regarding the forward-looking information contained herein, including the assumptions underlying such forward-looking information, see "*Advisories Regarding Forward-Looking Statements*" in this MD&A.

BASIS OF PRESENTATION

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. Such

abbreviation may be misleading, particularly if used in isolation. References to “oil” in this MD&A include crude oil and field condensate. References to “natural gas liquids” or “NGLs” include pentane, butane, propane, and ethane. References to “liquids” include field condensate and NGLs. References to “gas” include natural gas and sulphur.

COVID-19

On January 30, 2020 the World Health Organization (“WHO”) declared a Public Health Emergency of International Concern for a novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic with governments around the world imposing significant public health measures in order to reduce its spread. The COVID-19 pandemic resulted in an unprecedented global crude oil demand reduction in 2020 which in turn significantly lowered the average global benchmark crude oil price in 2020. Positive vaccine development along with temporary production curtailments from OPEC+ and non-OPEC nations, resulted in a recovery in crude oil prices in the second half of 2020. However, potential delays in the rollout of global vaccination programs and the emergence of new COVID-19 variants, remains a risk to the continued length of the pandemic and the extent of the impact on the global economy and crude oil prices.

FINANCIAL AND OPERATING SUMMARY

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|---------|-------|------------------------|---------|-------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| FINANCIAL PERFORMANCE | | | | | | |
| Petroleum and natural gas sales | 41,961 | 97,763 | -57 | 207,156 | 394,356 | -47 |
| Cash provided by operating activities | 3,288 | 35,396 | -91 | 59,279 | 162,488 | -64 |
| Adjusted funds from operations ⁽¹⁾ | 10,758 | 46,655 | -77 | 58,832 | 182,521 | -68 |
| Diluted (\$/ common share) ⁽¹⁾ | 0.06 | 0.25 | -76 | 0.31 | 0.99 | -69 |
| Profit (loss) and comprehensive income (loss) | 26,018 | (2,628) | -1090 | (324,807) | 6,572 | -5042 |
| Diluted (\$/ common share) | 0.14 | (0.01) | -1500 | (1.73) | 0.04 | -4425 |
| Total capital expenditures, net of dispositions | 24,470 | 63,983 | -62 | (353,957) | 315,624 | -212 |
| Net bank debt (surplus) ⁽¹⁾ | (26,261) | 328,080 | -108 | (26,261) | 328,080 | -108 |
| OPERATIONAL PERFORMANCE | | | | | | |
| Average daily production (BOE/d) | 16,476 | 31,262 | -47 | 24,992 | 29,961 | -17 |
| Average realized price, before financial instruments ⁽¹⁾ | 26.41 | 32.64 | -19 | 21.73 | 34.53 | -37 |
| Average realized price, after financial instruments ⁽¹⁾ | 23.90 | 32.53 | -27 | 22.72 | 34.45 | -34 |
| Operating netback ⁽¹⁾ | 8.40 | 18.65 | -55 | 8.41 | 18.89 | -55 |
| Reserves – proved plus probable (mboe) | 178,782 | 460,981 | -61 | 178,782 | 460,981 | -61 |

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

Kelt’s key financial and operating results in 2020 are highlighted by the following:

- On August 21, 2020, Kelt completed the disposition of its Inga Assets (the “Inga Asset Disposition”) for consideration of \$503.9 million after closing adjustments. Kelt’s 2020 financial and operating results include the Inga Assets until the closing of the disposition on August 21, 2020.
- Proceeds of the Inga Asset Disposition were primarily used to repay the Company’s outstanding bank debt and redeem all outstanding convertible debentures resulting in a positive working capital surplus of \$26.3 million as at December 31, 2020.
- The fourth quarter of 2020 was the first full quarter after the sale of the Inga Assets and production averaged 16,476 BOE per day (41% oil/NGLs).
- The COVID-19 pandemic resulted in an unprecedented global crude oil demand reduction in 2020 which in turn significantly lowered the average benchmark crude oil price in 2020. Kelt’s average realized price before financial instruments of \$21.73 per BOE for the year ended December 31, 2020 and \$26.41 per BOE for the fourth quarter of 2020 was 37% and 19% lower, respectively, than the comparable periods in 2019.

- Petroleum and natural gas sales for the year ended December 31, 2020 was \$207.2 million and for the fourth quarter of 2020 was \$42.0 million, down 47% from the year ended December 31, 2019, and down 57% from the fourth quarter of 2019.
- Kelt's operating netback of \$8.41 per BOE for the year ended December 31, 2020 and \$8.40 per BOE for the quarter ended December 31, 2020 decreased by 55% for both comparable periods in 2019.
- Adjusted funds from operations of \$58.8 million during the year ended December 31, 2020 (\$0.31 per share, diluted) and \$10.8 million during the fourth quarter of 2020 (\$0.06 per share, diluted), decreased 68% and 77% from the comparable periods in 2019.
- Fourth quarter capital expenditures, prior to minor acquisitions and dispositions, were \$24.2 million, which focused on drilling 5.0 net wells (three at Wembley and two at Pouce Coupe) and 2.0 net completions at Wembley.
- The Company reported oil and gas reserves as at December 31, 2020:
 - Proved developed producing reserves of 29.6 million BOE (34% oil and NGLs);
 - Total proved reserves of 96.0 million BOE (40% oil and NGLs); and
 - Total proved plus probable reserves of 178.8 million BOE (42% oil and NGLs).

PRODUCTION

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|--------|-----|------------------------|--------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Average daily production: | | | | | | |
| Oil (bbls/d) | 4,057 | 9,900 | -59 | 7,057 | 9,361 | -25 |
| NGLs (bbls/d) | 2,722 | 4,888 | -44 | 4,161 | 4,490 | -7 |
| Gas (mcf/d) | 58,179 | 98,844 | -41 | 82,646 | 96,658 | -14 |
| Combined (BOE/d) | 16,476 | 31,262 | -47 | 24,992 | 29,961 | -17 |
| Oil and NGLs weighting | 41% | 47% | -13 | 45% | 46% | -3 |

Average production for the three months and year ended December 31, 2020 decreased 47% and 17%, respectively, over the comparative periods in 2019, primarily due to the Inga Asset Disposition. The fourth quarter of 2020 is the first full quarter following the closing of the Inga Asset Disposition. For the three months ended December 31, 2019, production from the Inga Assets was 15,818 BOE per day.

Oil and NGLs weighting of total production decreased in 2020 to 41% during the fourth quarter and 45% for the year, versus the 47% and 46% in the comparable periods in 2019.

REVENUE

All references to revenue in this discussion are before royalties.

| (CA\$ thousands, except as otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|---------|-----|------------------------|----------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Revenue, before royalties and financial instruments: | | | | | | |
| Oil | 18,761 | 57,503 | -67 | 105,316 | 226,875 | -54 |
| NGLs | 5,615 | 9,449 | -41 | 22,904 | 33,796 | -32 |
| Gas | 15,768 | 27,081 | -42 | 71,932 | 110,409 | -35 |
| Revenue, before marketing | 40,144 | 94,033 | -57 | 200,152 | 371,080 | -46 |
| Marketing revenue ⁽²⁾ | 1,817 | 3,730 | -51 | 7,004 | 23,276 | -70 |
| Total revenue ⁽¹⁾ | 41,961 | 97,763 | -57 | 207,156 | 394,356 | -47 |
| Cost of purchases ⁽³⁾ | (1,938) | (3,890) | -50 | (8,303) | (16,740) | -50 |
| Kelt Revenue ⁽⁴⁾ | 40,023 | 93,873 | -57 | 198,853 | 377,616 | -47 |

(1) Petroleum and natural gas sales as reported in the consolidated financial statements is abbreviated as "total revenue".

(2) Sales of third-party volumes related to the Company's oil blending operations and natural gas activities.

(3) Cost of third-party volumes purchased for use and resale in the Company's oil blending operations and natural gas activities.

(4) "Kelt Revenue" is a non-GAAP measure and includes petroleum and natural gas sales, net of the cost of the third-party volumes purchased.

Revenue before marketing for the fourth quarter of 2020 was \$40.1 million, a decrease of 57% from \$94.0 million from the fourth quarter of 2019. Revenue before marketing for the twelve months ending December 31, 2020 was \$200.2 million, down 46% from the comparable period in 2019.

The decrease in revenue was driven by lower combined average realized pricing and lower production volumes. Kelt's average realized prices decreased 19% in the fourth quarter of 2020 and 37% in the twelve months ending December 31, 2020 versus the comparable period in 2019. Compared to the prior period in 2019, production decreased 47% decrease in the fourth quarter of 2020 and 17% for the twelve months ending December 31, 2020. The decrease in production is due to the Inga Asset Disposition.

Kelt Realized Prices

| (CA\$ thousands, except as otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|-------|-----|------------------------|-------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Average realized prices before financial instruments ⁽¹⁾ | | | | | | |
| Oil (\$/bbl) | 50.30 | 63.25 | -20 | 40.80 | 66.94 | -39 |
| NGLs (\$/bbl) | 22.42 | 21.01 | 7 | 15.04 | 20.62 | -27 |
| Gas (\$/mcf) | 2.91 | 2.95 | -1 | 2.33 | 3.26 | -29 |
| Combined (\$/BOE) | 26.41 | 32.64 | -19 | 21.73 | 34.53 | -37 |

(1) Average realized prices are calculated based on Kelt Revenue and reflect Kelt's realized commodity prices plus the net benefit of oil blending and natural gas marketing activities. Refer to additional information under the heading of "Non-GAAP Financial Measures and Other Key Performance Indicators".

Benchmark Prices

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|--------|-----|------------------------|--------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Average benchmark prices | | | | | | |
| Oil and NGLs | | | | | | |
| WTI Cushing Oklahoma (US\$/bbl) ⁽¹⁾ | 42.45 | 56.96 | -25 | 39.24 | 56.98 | -31 |
| WTI Cushing Oklahoma (CA\$/bbl) ⁽¹⁾ | 55.26 | 75.18 | -26 | 52.30 | 75.62 | -31 |
| Mixed Sweet Blend Edmonton ("MSW") (\$/bbl) ⁽²⁾ | 50.23 | 68.00 | -26 | 45.34 | 69.19 | -34 |
| Edmonton Pentane ⁽³⁾ | 55.86 | 74.95 | -25 | 49.85 | 71.39 | -30 |
| Edmonton Butane ⁽³⁾ | 19.33 | 40.93 | -53 | 21.87 | 23.71 | -8 |
| Edmonton Propane ⁽³⁾ | 16.32 | 26.88 | -39 | 16.31 | 17.16 | -5 |
| Edmonton Ethane ⁽³⁾ | 7.33 | 6.87 | 7 | 6.20 | 6.31 | -2 |
| Natural Gas | | | | | | |
| NYMEX Henry Hub (US\$/MMBtu) ⁽⁴⁾ | 2.66 | 2.49 | 7 | 2.08 | 2.62 | -21 |
| NYMEX Henry Hub (CA\$/MMBtu) ⁽⁴⁾ | 3.46 | 3.29 | 5 | 2.77 | 3.47 | -20 |
| AECO 5A (CA\$/MMBtu) ⁽⁴⁾ | 2.64 | 2.47 | 7 | 2.23 | 1.76 | 27 |
| Chicago-City Gate (CA\$/MMBtu) ⁽⁶⁾ | 3.00 | 2.88 | 4 | 2.51 | 3.20 | -22 |
| Dawn (CA\$/MMBtu) ⁽⁴⁾⁽⁵⁾ | 2.93 | 2.95 | -1 | 2.49 | 3.19 | -22 |
| Malin (CA\$/MMBtu) ⁽⁶⁾ | 3.81 | 3.50 | 9 | 2.87 | 3.54 | -19 |
| Sumas (CA\$/MMBtu) ⁽⁶⁾ | 4.62 | 5.54 | -17 | 3.10 | 5.04 | -38 |
| Station 2 (CA\$/MMBtu) ⁽⁴⁾⁽⁵⁾ | 2.54 | 1.49 | 70 | 2.18 | 1.02 | 114 |
| Average exchange rate (CA\$/US\$) ⁽⁷⁾ | 1.3030 | 1.3200 | -1 | 1.3412 | 1.3268 | 1 |

(1) Source: U.S Energy Information Administration, Canadian dollar equivalent price WTI price ("CA\$WTI") is calculated based on the monthly average US dollar WTI price and the monthly average CA\$/US\$ exchange rate (7).

(2) Source: Tidal Energy Marketing.

(3) Source: Sproule Associates Limited.

(4) Source: Canadian Gas Price Reporter converted to CA\$/MMBtu using monthly average CA\$/US\$ exchange rate (7).

(5) Source: ICE NGX (US\$/MMBtu) converted to CA\$/MMBtu using monthly average CA\$/US\$ exchange rate (7).

(6) Source: Platts (US\$/MMBtu) converted to CA\$/MMBtu using monthly average CA\$/US\$ exchange rate (7).

(7) Source: Bank of Canada.

Average realized prices decreased 19% to \$26.41 per BOE and 37% to \$21.73 per BOE in the three months and twelve months ending year ended December 31, 2020, respectively, versus the comparable periods in 2019. The decrease in realized prices was primarily due to a decrease in benchmark oil and NGLs prices which was offset by an increase in Canadian natural gas prices.

Oil prices

Benchmark WTI crude oil prices decreased 31% for the year ended December 31, 2020 from the 2019 average price, as global crude oil demand was impacted due to the COVID-19 pandemic. However, by the end of 2020, crude oil prices had partially rebounded due to positive vaccine developments and continued production curtailments from OPEC+ countries, with the benchmark WTI crude oil price in the fourth quarter of 2020 averaging 25% lower than the fourth quarter of 2019.

NGL prices

NGLs prices are impacted both by benchmark WTI prices, as well as localized market supply and demand issues.

For the year ended 2020, Kelt's realized NGLs price decreased 27% as compared to the year ended 2019, primarily due to a decrease in benchmark WTI prices. However, in the fourth quarter 2020, Kelt's realized NGLs prices increased 7% as compared to the fourth quarter of 2019, primarily due to Kelt's realized NGLs prices in the fourth quarter of 2019 being depressed as compared to benchmark Edmonton butane and propane prices.

Natural gas prices

Canadian AECO 5A and Station 2 natural gas benchmark prices increased in 2020 as compared to 2019. Canadian natural gas fundamentals improved due to a combination of increased Alberta natural gas demand, improved storage injections, and higher pipeline exports when compared to historical five year averages.

The US natural gas benchmark price indices declined at the beginning of 2020, primarily due to higher than normal storage levels from a warm 2019 winter, followed by demand concerns in 2020 due to the COVID-19 pandemic. However, by the fourth quarter of 2020, the significant reduction in North American shale oil drilling activities (and associated natural gas production) combined with record US LNG exports at the end of 2020 resulted in an increase to both US and Canadian natural gas benchmark price indices.

Kelt actively manages its natural gas marketing portfolio in order to maximum its netbacks. Starting in the fourth quarter of 2019, Kelt began reducing its exposure to US natural gas markets and increasing its exposure to AECO 5A and Station 2 as the fundamentals for Canadian natural gas prices improved. In the fourth quarter of 2020, Kelt's natural gas sold at US indices comprised of approximately 52% of natural gas sales compared to approximately 75% in the fourth quarter of 2019. For the year ended December 31, 2020 Kelt's natural gas sales at US indices comprised of approximately 60% of natural gas sales, compared to approximately 95% in 2019.

Kelt's realized natural gas price decreased by 1% to \$2.91 per MCF in the fourth quarter of 2020 compared to the fourth quarter of 2019, and decreased by 29% in the year ended December 31, 2020 from the comparable period in 2019. The decrease in realized natural gas prices in 2020 was offset by lower transportation costs as the Company increased its exposure to AECO 5A and Station 2.

RISK MANAGEMENT AND HEDGING ACTIVITIES

The Company may enter into fixed price contracts and derivative financial instruments for commodity prices, currency exchange and interest rates in order to secure future cash flows or to protect a desired level of capital spending. Fair value accounting for derivative financial instruments may cause significant fluctuations in the reported amounts of derivative financial instrument assets and liabilities and the resultant magnitude of unrealized gains and losses.

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

| (CA\$ thousands, except as otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|---------|------|------------------------|---------|-------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Realized gain (loss) | (3,806) | (304) | 1152 | 9,913 | (912) | -1187 |
| Unrealized gain (loss) | 3,925 | (3,996) | -198 | 3,767 | (4,902) | -177 |
| Gain (loss) on derivative financial instruments | 119 | (4,300) | -103 | 13,680 | (5,814) | -335 |
| \$ per BOE | 0.08 | (1.50) | -105 | 1.49 | (0.53) | -381 |

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 US dollar.

As at March 10, 2021, the following commodity price risk management contracts are outstanding:

| Contract Type ⁽¹⁾⁽²⁾⁽³⁾ | Notional Volume | Contract Price | Remaining Term |
|---------------------------------------|-----------------|----------------------------|----------------|
| Crude oil derivative contracts | | | |
| WTI fixed price swap | 1,500 bbl/d | CAD\$56.17/bbl | Jan – Mar 2021 |
| WTI fixed price swap | 1,500 bbl/d | CAD\$58.52/bbl | Apr – Jun 2021 |
| WTI fixed price swap | 1,500 bbl/d | CAD\$70.00/bbl | Jul – Sep 2021 |
| WTI-MSW basis swap | 1,500 bbl/d | WTI less USD\$4.55 per bbl | Apr – Sep 2021 |

| Contract Type ⁽¹⁾⁽²⁾ | Notional Volume | Contract Price | Remaining Term |
|---|-----------------|-----------------|----------------|
| Natural gas derivative contracts | | | |
| NYMEX fixed price swap | 10,000 MMBtu/d | CAD\$4.00/MMBtu | Jan – Oct 2021 |
| AECO 5A fixed price swap | 5,000 GJ/d | CAD\$2.70/GJ | Jan – Oct 2021 |

(1) West Texas Intermediate (“WTI”)

(2) NYMEX Henry Hub (“NYMEX”)

(3) Mixed Sweet Blend (“MSW”)

ROYALTIES

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|-------|-----|------------------------|--------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Royalties | 3,224 | 3,606 | -11 | 10,354 | 19,301 | -46 |
| Average royalty rate ⁽¹⁾ | 8.0% | 3.8% | 111 | 5.2% | 5.2% | - |
| \$ per BOE | 2.13 | 1.25 | 70 | 1.13 | 1.76 | -36 |

(1) Average royalty rate is calculated based on total royalties as a percentage of “Revenue, before marketing” which excludes revenue related to the sale of third-party production volumes used in oil blending operations (see table under the heading of “Revenue”).

Kelt’s average royalty rate was 8.0% during the fourth quarter of 2020, compared to 3.8% during the fourth quarter of 2019. Kelt’s average royalty rate for the twelve months ended December 31, 2019 remained consistent at 5.2% as compared to the year ended December 31, 2019.

The increase in the royalty rate in the fourth quarter of 2020 compared to the fourth quarter of 2019 is primarily due to a gas cost allowance adjustment in Alberta, and overall higher royalties in 2020 due to fewer wells eligible for deep well deductions.

In 2020, Kelt recognized a \$1.2 million (\$0.9 million in 2019) royalty credit from the BC Infrastructure Royalty Credit Program. The credit is applied against royalties as they are incurred, resulting in a lower average royalty rate when compared to the same period in 2019.

PRODUCTION EXPENSES

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|--------|-----|------------------------|---------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Production expense | 14,460 | 26,143 | -45 | 87,447 | 100,384 | -13 |
| \$ per BOE | 9.54 | 9.09 | 5 | 9.56 | 9.18 | 4 |

Fourth quarter production expenses in 2020 decreased 45% compared to the same period in 2019. Production expenses for the year ended December 31, 2020 decreased by 13% compared to the year ended December 31, 2019. The decrease in production expenses in 2020 was primarily a result of less assets, which were sold as part of the Inga Asset Disposition.

On a per BOE basis, production expenses per BOE increased 5% in the fourth quarter of 2020, and increased 4% for the year ended December 31, 2020 versus the comparable periods in 2019. The increase was primarily due to higher gas processing costs, and slightly higher costs in Alberta compared to the assets disposed of as part of the Inga Asset Disposition. This was partially offset by cost savings initiatives and a reduction in field activities implemented in 2020 as a result of the COVID-19 pandemic.

TRANSPORTATION EXPENSES

| (CA\$ thousands, except as otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|--------|-----|------------------------|--------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Transportation expense ⁽¹⁾ | 5,807 | 10,195 | -43 | 33,155 | 50,516 | -34 |
| \$ per BOE | 3.83 | 3.54 | 8 | 3.62 | 4.62 | -22 |

(1) Pipeline tariffs are classified as transportation expenses when the Company has firm commitments or contractual arrangements on the pipeline. Pipeline tariffs may also be incurred indirectly by way of deduction from the base price paid by the purchasers of the Company's oil, NGLs and gas sales. In the latter case, and in the absence of a firm contractual obligation on the pipeline, the pipeline tariffs are presented as a reduction of revenue rather than as transportation expense.

Transportation expenses averaged \$3.83 per BOE during the fourth quarter of 2020, an increase of 8% from \$3.54 per BOE in the fourth quarter of 2019. The increase was primarily due to one time costs as the Company rationalized its transportation commitments following the Inga Asset Disposition.

Transportation expenses averaged \$3.62 per BOE during the twelve months ending December 31, 2020, a decrease of 22% from \$4.62 per BOE in the twelve months ended December 31, 2019. Commencing in the fourth quarter of 2019, the Company began reducing its natural gas exposure to US natural gas markets, while increasing its exposure to AECO 5A and Station 2 prices. This has resulted in a significant reduction in transportation commitments and transportation costs that are required to ship natural gas to US markets.

FINANCING EXPENSES

| (CA\$ thousands, except as otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|---------|------|------------------------|---------|------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Interest on bank debt | 36 | 2,988 | -99 | 7,047 | 9,833 | -28 |
| Fees on bank debt | 9 | 240 | -96 | 713 | 782 | -9 |
| Interest on convertible debentures | 37 | 1,134 | -97 | 3,399 | 4,496 | -24 |
| Interest on finance lease | 22 | 32 | -31 | 148 | 165 | -10 |
| Interest on financing liability | - | 34 | -100 | 1,200 | 104 | 1054 |
| Total interest expense | 104 | 4,428 | -98 | 12,507 | 15,380 | -19 |
| Accretion of convertible debentures | - | 1,159 | -100 | 3,640 | 4,399 | -17 |
| Accretion of decommissioning obligations | 324 | 718 | -55 | 1,892 | 2,994 | -37 |
| Total financing expense | 428 | 6,305 | -93 | 18,039 | 22,773 | -21 |
| Interest expense per BOE ⁽¹⁾ | 0.07 | 1.54 | -95 | 1.37 | 1.41 | -3 |
| Average principal amount outstanding during period: | | | | | | |
| Bank debt ⁽³⁾ | NA | 298,793 | -100 | 201,287 | 249,910 | -19 |
| Convertible debentures | 1,955 | 89,910 | -98 | 67,801 | 89,910 | -25 |
| Average total principal amount of debt outstanding | 1,955 | 388,703 | -99 | 269,088 | 339,820 | -21 |
| Average interest rates: | | | | | | |
| Bank debt ^{(2) (3)} | NA | 4.0% | -100 | 3.5% | 3.9% | -10 |
| Convertible debentures ⁽³⁾ | NA | 5.0% | -100 | 5.0% | 5.0% | - |

(1) Interest expense used in the calculation of "Interest expense per BOE" includes interest and fees on bank debt and accrued cash interest on convertible debentures.

(2) Average interest rate excludes fees on bank debt which include bank commitment, standby and guarantee letter fees.

(3) In the fourth quarter of 2020, Kelt did not have any outstanding bank debt and redeemed all outstanding convertible debentures.

On August 21, 2020, the Company repaid the outstanding amount on its revolving committed term credit facility resulting in a decrease of 19% in the average bank debt outstanding during and decrease of 21% in total interest expense for the year ended December 31, 2020 as compared to the year ended December 31, 2019.

Additional information regarding the credit facility and debentures is provided under the heading of "Capital Resources and Liquidity".

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES

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

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|---------|-----|------------------------|---------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Salaries and benefits | 2,036 | 2,554 | -20 | 7,154 | 10,340 | -31 |
| Other G&A expenses | 809 | 1,400 | -42 | 4,586 | 4,949 | -7 |
| Gross G&A expenses | 2,845 | 3,954 | -28 | 11,740 | 15,289 | -23 |
| Overhead recoveries | (993) | (1,477) | -33 | (4,418) | (6,400) | -31 |
| Net G&A expenses | 1,852 | 2,477 | -25 | 7,322 | 8,889 | -18 |
| Gross G&A (\$ per BOE) | 1.88 | 1.37 | 37 | 1.28 | 1.40 | -9 |
| Net G&A (\$ per BOE) | 1.22 | 0.86 | 42 | 0.80 | 0.81 | -1 |

Net G&A expenses for the fourth quarter of 2020 was \$1.9 million compared to \$2.5 million in the prior year. On a per BOE basis, the Inga Asset Disposition resulted in an increase in G&A per BOE as production decreased at a higher rate than the reduction in the Company's G&A expenses.

For the year ended December 31, 2020, net G&A, decreased 18% as compared to the same period in 2019 which is largely due to a decrease in employee compensation and recoveries related to the federal government's Canada Emergency Wage Subsidy program.

G&A expenses are reported net of overhead recoveries; however, Kelt does not capitalize any direct G&A expenses.

SHARE BASED COMPENSATION (“SBC”)

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|-------|-----|------------------------|-------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Stock options | 525 | 898 | -42 | 2,945 | 4,152 | -29 |
| Restricted share units (“RSUs”) | 230 | 559 | -59 | 2,208 | 2,707 | -18 |
| Total SBC expense | 755 | 1,457 | -48 | 5,153 | 6,859 | -25 |
| \$ per BOE | 0.50 | 0.51 | -2 | 0.56 | 0.63 | -11 |

The decrease in SBC expense during the quarter and year ended December 31, 2020 compared to the same periods in 2019 is primarily due increased forfeitures of unvested stock options, fewer restricted shares units issued in recent periods and the lower Black-Scholes value associated with recent option grants.

As at December 31, 2020, stock options and RSUs outstanding represent 5.5% of total shares outstanding (December 31, 2019 – 5.8%).

EXPLORATION AND EVALUATION (“E&E”) EXPENSES

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|-------|-----|------------------------|-------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Impairment and expiry of mineral leases | 256 | 4,182 | -94 | 3,219 | 5,055 | -36 |
| \$ per BOE | 0.17 | 1.45 | -88 | 0.35 | 0.46 | -24 |

E&E expense was \$0.3 million for the quarter ended December 31, 2020 and \$3.2 million in the year ended December 31, 2020, compared to E&E expense of \$4.2 million and \$5.1 million in the comparative periods in 2019. The E&E expense relates to the expiry and impairment of undeveloped land.

DEPLETION, DEPRECIATION AND IMPAIRMENT

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|--------|-----|------------------------|---------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Depletion and depreciation | 18,032 | 39,389 | -54 | 112,623 | 156,396 | -28 |
| Impairment | - | - | - | 336,500 | - | - |
| Total depletion, depreciation and impairment | 18,032 | 39,389 | -54 | 449,123 | 156,396 | 187 |
| Depletion and depreciation (\$/BOE) | 11.90 | 13.70 | -13 | 12.31 | 14.30 | -14 |
| Impairment (\$/BOE) | - | - | - | 36.79 | - | - |

The Company calculates depletion of development and production (“D&P”) assets based on production relative to total proved reserves for each depletion unit. Depletion and depreciation expense of \$18.0 million for the quarter ended December 31, 2020 decreased by 54% from \$39.4 million in the comparable period in 2019. Depletion and depreciation expense for the year ended December 31, 2020 decreased 28% as compared to the prior year. The decrease was primarily due to the sale of the Inga Assets, which were classified as Assets Held for Sale as of June 30, 2020 and not depleted in the third and fourth quarter.

As at December 31, 2020 Kelt assessed its CGU’s for indicators of impairment or impairment reversals as compared to its last impairment taken in the first quarter of 2020. Based on a recovery of commodity prices since March 31, 2020 and an increase in reserves for the year ended December 31, 2020 compared to December 31, 2019, the Company determined that there were potential indicators of impairment reversals for the Alberta CGU. For the BC CGU, Kelt determined that there were no potential indicators of impairment as at December 31, 2020.

Recoverable amounts for the Alberta CGU as of December 31, 2020 were estimated based on FVLCD methodology which is calculated using the present value of the CGUs’ expected future cash flows (after-tax). The cash flow information was derived from a report on the Company’s oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited (“Sproule”) as of December 31, 2020. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2020, including forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts were based on Sproule’s December 31, 2020 evaluation of the Company’s reserves to determine production profiles and volumes, operating costs, royalties, maintenance and future development capital expenditures. Future cash flow estimates were discounted using after-tax risk-adjusted discount rates. The after-tax discount rate applied in the impairment calculation as at December 31, 2020 was 16.0% and was based on the risks specific to the assets in the CGU. As at December 31, 2020, the net carrying amount of PP&E, less decommissioning obligations, for the Alberta CGU was \$446.8 million.

Based on the results of the impairment test as at December 31, 2020 and continued economic uncertainty with the COVID-19 pandemic, no impairment or impairment reversals were recorded for the Alberta CGU.

The recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions. As at December 31, 2020, holding all other variables in the FVLCD calculation constant:

- if the discount rate increased (decreased) by 1%, the FVLCD of the Alberta CGU would decrease by \$28.7 million and increase by \$31.3 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the FVLCD of the Alberta CGU would decrease by \$75.1 million and increase by \$75.1 million.

Forecast future prices used in the impairment evaluation as at December 31, 2020 reflect the benchmark prices set forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| As at December 31, 2020 | 2021 | 2022 | 2023 | 2024 | 2025⁽¹⁾ |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------------------|
| WTI Cushing Oklahoma (US\$/bbl) | 46.00 | 48.00 | 53.00 | 54.06 | 55.14 |
| Canadian Light Sweet 40 API (\$/bbl) | 54.55 | 57.14 | 63.64 | 64.91 | 66.21 |
| NYMEX Henry Hub (US\$/MMBtu) | 3.00 | 3.00 | 3.00 | 3.06 | 3.12 |
| AECO-C Spot (\$/MMBtu) | 2.86 | 2.78 | 2.69 | 2.75 | 2.80 |

(1) Prices escalate between 1.7%-2.5% in years 2026 to 2030

| As at December 31, 2019 | 2020 | 2021 | 2022 | 2023 | 2024⁽¹⁾ |
|--------------------------------------|-------------|-------------|-------------|-------------|---------------------------|
| WTI Cushing Oklahoma (US\$/bbl) | 60.25 | 63.11 | 66.02 | 67.64 | 69.16 |
| Canadian Light Sweet 40 API (\$/bbl) | 71.58 | 75.33 | 77.51 | 79.77 | 81.60 |
| NYMEX Henry Hub (US\$/MMBtu) | 2.57 | 2.79 | 2.99 | 3.15 | 3.22 |
| AECO-C Spot (\$/MMBtu) | 2.05 | 2.32 | 2.60 | 2.74 | 2.82 |
| Exchange rate (CA\$/US\$) | 1.3158 | 1.2987 | 1.2500 | 1.2500 | 1.2500 |

(1) Prices escalate at 2-3% after 2024

In the first quarter of 2020, as a result of the COVID-19 pandemic and a resulting collapse in global crude oil prices, an impairment test was conducted over all Kelt's CGUs. Based on the impairment test performed on the Alberta CGU, it was determined that the carrying value was in excess of the recoverable amount resulting in an impairment loss of \$77.1 million (before-tax). The impairment was primarily a result of a decrease in forecast crude oil prices as at March 31, 2020 compared to forecast prices as at December 31, 2019.

Recoverable amounts for each CGU as of March 31, 2020 were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2019, with the information rolled forward to March 31, 2020. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at March 31, 2020, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts were based on Sproule's December 31, 2019 evaluation of the Company's reserves to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future development capital was moved forward one year from the December 31, 2019 Sproule reserve evaluation due to deferrals of the Company's capital program as of March 31, 2020. The decrease in commodity prices from December 31, 2019 resulted in the removal of wells which were previously economic in the December 31, 2019 Sproule report. Future cash flow estimates were discounted using after-tax risk-adjusted discount rates. The after-tax discount rate applied in the impairment calculation as at March 31, 2020 was 12.0% and was based on the risks specific to the assets in the CGUs. As at March 31, 2020, the net carrying amount of PP&E, less decommissioning obligations, for the Alberta CGU was \$463.5 million subsequent to the impairment taken.

As at March 31, 2020, holding all other variables in the FVLCD calculation constant:

- if the discount rate increased (decreased) by 1%, the impairment of the Alberta CGU would decrease by \$28.5 million and increase by \$31.3 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the impairment of the Alberta CGU would decrease by \$51.4 million and increase by \$63.4 million.

Forecast future prices used in the impairment evaluation as at March 31, 2020 reflect the benchmark prices set-forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| As at March 31, 2020 | 2020 | 2021 | 2022 | 2023 | 2024⁽¹⁾ |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------------------|
| WTI Cushing Oklahoma (US\$/bbl) | 30.00 | 41.18 | 49.88 | 55.87 | 57.98 |
| Canadian Light Sweet 40 API (\$/bbl) | 29.72 | 47.20 | 59.66 | 67.00 | 69.92 |
| NYMEX Henry Hub (US\$/MMBtu) | 2.08 | 2.54 | 2.79 | 2.92 | 2.99 |
| AECO-C Spot (\$/MMBtu) | 1.78 | 2.22 | 2.42 | 2.54 | 2.61 |

(1) Prices escalate between 1.8%-3.1% in years 2025 to 2030

On August 21, 2020, the Company completed the disposition of the Inga Assets, which comprised the majority of the Company's BC CGU assets. In the second quarter of 2020, the BC CGU was impaired by \$259.4 million (before-tax) based on the transaction value contained in the Inga Asset Disposition purchase and sale agreement.

GAIN (LOSS) ON SALE OF ASSETS

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|------|------|------------------------|-------|------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Gain (loss) on sale of assets | (1,175) | 899 | -231 | (4,751) | 6,902 | -169 |

On August 21, 2020, Kelt completed the disposition of its Inga Assets, for consideration of \$503.9 million after closing adjustments and transaction costs. The Inga Assets had a carrying value of \$511.0 million, resulting in a loss on sale of \$7.1 million.

FLOW-THROUGH SHARES

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|------|---|------------------------|------|---|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Premium on flow-through shares | - | - | - | 1,346 | - | - |

Management has issued common shares on a "flow-through" basis which are typically issued at a premium to the market price of the Company's common shares. The premium received by the Company in excess of the fair value of its common shares at the time of the offering, is initially deferred and subsequently recognized in income as the premium is earned by incurring qualifying capital expenditures.

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities ("FTS") to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of December 31, 2020, all eligible expenditures have been incurred for the Company's flow through shares issued in 2019.

INCOME TAXES

| <i>(CA\$ thousands, unless otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|---------|------|------------------------|---------|-------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Deferred income tax (expense) recovery | 31,879 | 775 | 4013 | 88,308 | (2,835) | -3215 |
| Profit (Loss) before taxes | (5,861) | (3,403) | 72 | (413,115) | 9,407 | -4492 |
| Effective tax recovery rate | 543.9% | 22.8% | 2288 | 21.4% | 30.1% | -29 |

Kelt did not recognize any deferred tax assets in the first nine months of 2020 due to uncertainty regarding future taxable income. Due to improving commodity prices, in the fourth quarter of 2020, Kelt recognized a deferred tax asset of \$31.9 million resulting in an effective tax rate of 544%.

Kelt does not expect to pay income taxes in the current year as the Company had sufficient income tax deductions available to shelter taxable income. The Company's consolidated tax pools are estimated to be approximately \$714.6 million as of December 31, 2020, a decrease of 40% from December 31, 2019 as summarized in the table below. The decrease was primarily a result from the Inga Asset Disposition.

| <i>(CA\$ thousands, unless otherwise indicated)</i> | Rate | December 31 | December 31 | % |
|---|----------|-------------|-------------|-----|
| | | 2020 | 2019 | |
| Canadian oil and gas property expenses (COGPE) | 10-15% | 87,273 | 115,792 | -25 |
| Canadian development expenses (CDE) | 30-45% | 81,882 | 254,985 | -68 |
| Canadian exploration expenses (CEE) | 100% | 53,859 | 109,508 | -51 |
| Undepreciated capital cost ⁽¹⁾ (UCC) | 25-37.5% | 179,396 | 264,870 | -32 |
| Share and debt issue costs | 5 years | 588 | 1,805 | -67 |
| Non-capital losses ⁽²⁾ (NCL) | 100% | 314,630 | 437,754 | -28 |
| Estimated tax deductions available, end of period | | 717,628 | 1,184,714 | -39 |

(1) The majority of the Company's undepreciated capital cost deductions relate to Class 41 assets, which are deductible at a rate of 25-37.5% per year.

(2) The Company's non-capital losses expire in years 2039 to 2040.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income and adjusted funds from operations generated during the three months and year ended December 31, 2020 and 2019 respectively.

| <i>(CA\$ thousands, unless otherwise indicated)</i> | THREE MONTHS ENDED DECEMBER 31 TH | | | Amount | | | \$/BOE | | |
|---|--|---------------|------------|-------------|--------------|------------|--------|------|---|
| | 2020 | 2019 | % | 2020 | 2019 | % | 2020 | 2019 | % |
| Petroleum and natural gas sales | 41,961 | 97,763 | -57 | 27.69 | 33.99 | -19 | | | |
| Cost of purchases | (1,938) | (3,890) | -50 | (1.28) | (1.35) | -5 | | | |
| Realized loss on financial instruments ⁽¹⁾ | (3,806) | (304) | 1152 | (2.51) | (0.11) | 2182 | | | |
| Royalties | (3,224) | (3,606) | -11 | (2.13) | (1.25) | 70 | | | |
| Revenue, after royalties and financial instruments | 32,993 | 89,963 | -63 | 21.77 | 31.28 | -30 | | | |
| Production expense | (14,460) | (26,143) | -45 | (9.54) | (9.09) | 5 | | | |
| Transportation expense | (5,807) | (10,195) | -43 | (3.83) | (3.54) | 8 | | | |
| Operating income/netback ⁽²⁾ | 12,726 | 53,625 | -76 | 8.40 | 18.65 | -55 | | | |
| Financing expense ⁽³⁾ | (104) | (4,428) | -98 | (0.07) | (1.54) | -95 | | | |
| G&A expense | (1,852) | (2,477) | -25 | (1.22) | (0.86) | 42 | | | |
| Realized loss on foreign exchange | (140) | (65) | 115 | (0.09) | (0.02) | 350 | | | |
| Other income/expense | 128 | - | - | 0.08 | - | - | | | |
| Adjusted funds from operations ⁽²⁾ | 10,758 | 46,655 | -77 | 7.10 | 16.23 | -56 | | | |
| Basic (\$ per common share) ⁽⁴⁾ | 0.06 | 0.25 | -76 | | | | | | |
| Diluted (\$ per common share) ⁽⁴⁾ | 0.06 | 0.25 | -76 | | | | | | |
| Common shares outstanding (000s): | | | | | | | | | |
| Basic, weighted average | 188,551 | 184,763 | 2 | | | | | | |
| Diluted, weighted average | 189,270 | 185,108 | 2 | | | | | | |

(1) Includes realized gains (losses) on commodity price and foreign exchange derivatives.

(2) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

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

(4) Adjusted funds from operations (3) 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.

During the three months ended December 31, 2020, adjusted funds from operations of \$10.8 million (\$0.06 per share, diluted) decreased by 77% from \$46.7 million (\$0.25 per share, diluted) comparable period in 2019. The decrease in adjusted funds from operations is primarily attributed to a 76% decrease in operating income.

| YEAR ENDED DECEMBER 31 TH | Amount | | | \$/BOE | | |
|--|--|----------------|------------|-------------|--------------|------------|
| | (CA\$ thousands, unless otherwise indicated) | 2020 | 2019 | % | 2020 | 2019 |
| Petroleum and natural gas sales | 207,156 | 394,356 | -47 | 22.65 | 36.06 | -37 |
| Cost of purchases | (8,303) | (16,740) | -50 | (0.92) | (1.53) | -40 |
| Realized gain (loss) on financial instruments ⁽¹⁾ | 9,048 | (912) | -1092 | 0.99 | (0.08) | -1338 |
| Royalties | (10,354) | (19,301) | -46 | (1.13) | (1.76) | -36 |
| Revenue, after royalties and financial instruments | 197,547 | 357,403 | -45 | 21.59 | 32.69 | -34 |
| Production expense | (87,447) | (100,384) | -13 | (9.56) | (9.18) | 4 |
| Transportation expense | (33,155) | (50,516) | -34 | (3.62) | (4.62) | -22 |
| Operating income/netback ⁽³⁾ | 76,945 | 206,503 | -63 | 8.41 | 18.89 | -55 |
| Financing expense ⁽⁴⁾ | (12,507) | (15,380) | -19 | (1.37) | (1.41) | -3 |
| G&A expense | (7,322) | (8,889) | -18 | (0.80) | (0.81) | -1 |
| Realized gain on financial instruments ⁽²⁾ | 865 | - | - | 0.09 | - | - |
| Realized loss on foreign exchange | (28) | (275) | -90 | - | (0.03) | -100 |
| Other income/expense | 879 | 562 | 56 | 0.10 | 0.05 | 100 |
| Adjusted funds from operations ⁽³⁾ | 58,832 | 182,521 | -68 | 6.43 | 16.69 | -61 |
| Basic (\$ per common share) ⁽⁵⁾ | 0.31 | 0.99 | -69 | | | |
| Diluted (\$ per common share) ⁽⁵⁾ | 0.31 | 0.99 | -69 | | | |
| Common shares outstanding (000s): | | | | | | |
| Basic, weighted average | 188,093 | 184,302 | 2 | | | |
| Diluted, weighted average | 188,093 | 184,946 | 2 | | | |

(1) Includes realized gains (losses) on commodity price and foreign exchange derivatives.

(2) Includes realized gains (losses) on cash premium on financial instruments and interest rate derivatives.

(3) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

(4) Excludes non-cash accretion of decommissioning obligations and convertible debentures.

(5) Adjusted funds from operations (3) 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.

During the year ended December 31, 2020, adjusted funds from operations of \$58.8 million (\$0.31 per share, diluted) decreased by 68% from \$182.5 million (\$0.99 per share, diluted) during the year ended December 31, 2019. The decrease in adjusted funds from operations is primarily attributed to a 63% decrease in operating income.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

| (CA\$ thousands, unless otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|---------|-------|------------------------|---------|-------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Profit (loss) and comprehensive income (loss) | 26,018 | (2,628) | -1090 | (324,807) | 6,572 | -5042 |
| \$ per common share, basic | 0.14 | (0.01) | -1500 | (1.73) | 0.04 | -4425 |
| \$ per common share, diluted ⁽¹⁾⁽²⁾ | 0.14 | (0.01) | -1500 | (1.73) | 0.04 | -4425 |
| \$ per BOE | 17.17 | (0.88) | -2051 | (35.51) | 0.60 | -6018 |
| Wtd avg. shares outstanding, basic (000s) | 188,551 | 184,763 | 2 | 188,093 | 184,302 | 2 |
| Wtd avg. shares outstanding, diluted (000s) ⁽¹⁾⁽²⁾ | 189,270 | 185,108 | 2 | 188,093 | 184,946 | 2 |

(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. For the year ended December 31, 2020, the effect stock options and RSUs were anti-dilutive therefore excluded in calculating diluted weighted average common shares outstanding.

(2) The common shares potentially issuable on conversion of the debentures are excluded from the calculation of diluted weighted average shares outstanding as they were anti-dilutive to the loss reported for year ended December 31, 2019.

Kelt reported a profit of \$26.0 million (\$0.14 per common share, diluted) for the quarter ended December 31, 2020, compared to a loss of \$2.6 million (\$0.01 per common share, diluted) in the same quarter of 2019. Kelt reported a loss of \$324.8 million (\$1.73 per common share, diluted) for the year ended December 31, 2020, compared to a profit of \$6.6 million (\$0.04 per common share, diluted) in the prior year.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

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

| <i>(CA\$ thousands, unless otherwise indicated)</i> | Three months ended December 31 | | | Year ended December 31 | | |
|---|--------------------------------|---------|------|------------------------|---------|------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Capital expenditures: | | | | | | |
| Lease acquisition and retention | 141 | 420 | -66 | 1,285 | 2,249 | -43 |
| Geological and geophysical | 18 | 94 | -81 | 1,525 | 1,319 | 16 |
| Drilling and completion of wells | 16,467 | 35,098 | -53 | 70,174 | 184,735 | -62 |
| Facilities, pipeline and well equipment | 7,270 | 28,907 | -75 | 78,667 | 128,252 | -39 |
| Corporate assets | 349 | 11 | 3073 | 438 | 771 | -43 |
| Capital expenditures, before A&D | 24,245 | 64,530 | -62 | 152,089 | 317,326 | -52 |
| Property acquisitions | 327 | 775 | -58 | 2,343 | 7,183 | -67 |
| Property dispositions | (102) | (1,322) | -92 | (508,389) | (8,885) | 5622 |
| Total capital expenditures, net of A&D | 24,470 | 63,983 | -62 | (353,957) | 315,624 | -212 |

Capital expenditures before A&D decreased 62% in the fourth quarter of 2020 and 52% from the year ended December 31, 2020 versus the comparable periods in 2019. The Company reduced its 2020 capital budget at the onset of COVID-19. On August 21, 2020, Kelt completed the Inga Asset Disposition, located in British Columbia, for consideration of \$503.9 million after closing adjustments. The Inga Asset Disposition had an effective date of July 1, 2020. The Inga Assets had a carrying value of \$511.0 million, resulting in a loss on sale of \$7.1 million.

Kelt's facility, pipeline and well equipment expenditures were \$78.7 million for the year ending December 31, 2020 and related primarily to refrigeration and dehydration at the Inga 2-10 gas plant and facility and pipeline projects at Wembley.

Drilling and completion expenditures in 2020 were significantly lower than in 2019. In April, the Company deferred much of its remaining 2020 capital program in response to lower crude oil prices. For the fourth quarter of 2020, drilling and completion costs of \$16.5 million included the drilling of 5.0 net wells and completion of 2.0 net wells. For the year ended December 31, 2020, drilling and completion costs of \$70.2 million included the drilling of 14.0 net wells and the completion of 9.0 net wells.

| Net Wells | Three months ended December 31 | | | Year ended December 31 | | |
|------------|--------------------------------|------|-----|------------------------|------|-----|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Drilling | 5.0 | 6.0 | -17 | 14.0 | 33.0 | -58 |
| Completion | 2.0 | 6.0 | -67 | 9.0 | 36.0 | -75 |

LAND HOLDINGS

The table below sets-out Kelt's significant Montney land holdings across British Columbia and Alberta as at December 31, 2020.

| MONTNEY RIGHTS | Net Acres | Net Sections |
|----------------------------|-----------|--------------|
| British Columbia | 206,144 | 322.1 |
| Alberta | 164,420 | 256.9 |
| Total | 370,564 | 579.0 |
| CHARLIE LAKE RIGHTS | | |
| Alberta | 74,714 | 116.7 |

Kelt's has amassed a significant stake of Montney rights with 579.0 net sections, as well as a sizable stake of Charlie

Lake rights with 116.7 net sections.

CAPITAL RESOURCES AND LIQUIDITY

LIQUIDITY

Kelt's objective is to maintain a flexible capital structure that provides sufficient liquidity for the Company to meet its obligations when due and to execute on its capital investment program. The Company manages its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets.

As a result of the COVID-19 pandemic, global economic markets have been volatile and crude oil demand remains below pre-pandemic levels. The length and severity of the impacts of COVID-19 on crude oil demand and pricing is currently uncertain. Management believes that the long-term viability of the oil and gas industry remains intact and commodity prices have improved following the initial response to COVID-19 and the related economic restrictions imposed in many countries.

In the third quarter of 2020, Kelt sold its Inga Assets for cash proceeds of \$510.0 million before closing adjustments. In addition, the purchaser assumed \$28.8 million of financing liabilities and \$1.1 million of lease and other liabilities. Proceeds of the disposition were used to repay the Company's outstanding bank debt, and redeem Kelt's outstanding convertible debentures. Following the repayment of the bank debt, disposition of the financing obligations and redemption of the convertible debentures, Kelt is without any long-term bank or financial obligations and ended December 31, 2020 with a working capital surplus of \$26.3 million. The Company expects to fund Kelt's 2021 capital expenditure program using this working capital surplus plus adjusted funds from operations.

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback amount of \$15.0 million, with the outstanding balance held in trust and recorded as a deposit on the balance sheet. The holdback of \$15.0 million will be released over the course of 12 months from the transaction closing date of August 21, 2020 in three equal amounts, provided no claims are brought forth by the purchaser. Kelt has received the first installment of \$5.0 million, leaving \$10.0 million as a deposit held in trust at December 31, 2020.

The Company has a \$20.0 million demand revolving credit facility that is currently expected to be used only for the purpose of short-term working capital management, hedging and letters of credit. Based on current commodity prices and the uncertain impacts of COVID-19, Kelt does not anticipate using bank debt to fund capital expenditures in 2021.

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|----------------------|
| Bank debt | - | 300,000 |
| Working capital deficiency (surplus) | (26,261) | 28,080 |
| Net bank debt (surplus) ⁽¹⁾ | (26,261) | 328,080 |
| Annualized quarterly adjusted funds from operations ⁽¹⁾⁽²⁾ | 43,032 | 186,620 |
| Net bank debt (surplus) to annualized quarterly adjusted funds from operations ratio ⁽¹⁾ | (0.6) | 1.8 |

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

(2) Adjusted funds from operations are annualized based on the most recent quarter's adjusted funds from operations.

The Company monitors its capital structure and short-term financing requirements using a net bank debt (surplus) to annualized quarterly adjusted funds from operations ratio, which is a non-GAAP financial measure. Kelt targets a net bank debt (surplus) to annualized quarterly adjusted funds from operations ratio of less than 2.0 times.

The Company may adjust its future capital structure according to market conditions in order to maintain flexibility to achieve its objectives. To adjust its capital structure, the Company may increase or decrease capital expenditures including acquisitions and dispositions, issue new shares, issue new debt or repay existing debt.

CREDIT FACILITY

Concurrent with the closing of the Inga Asset Disposition, the Company repaid the amounts outstanding under its previous \$350.0 million revolving committed term credit facility with a syndicate of lenders and entered into a \$20.0

million demand revolving credit facility (“the Credit Facility”) with a Canadian chartered bank. Currently the primary purpose of the Credit Facility is to hold the Company’s letters of credit, and to allow the use of hedging activities. 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 risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of \$100.0 million.

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. At December 31, 2020 there were 188.6 million common shares issued and outstanding. There are no preferred shares issued or outstanding.

At December 31, 2020, officers, directors, and employees have been granted options to purchase 10.0 million common shares of the Company at an average exercise price of \$3.88 per common share. In addition, there are 0.3 million RSUs outstanding.

The following table outlines Kelt’s common share trading activity during 2020 and 2019:

| SHARE TRADING ACTIVITY (KEL) | YTD 2020 | YTD 2019 |
|-------------------------------------|----------|-----------|
| High (\$) | 5.00 | 6.14 |
| Low (\$) | 0.67 | 2.45 |
| Close (\$) | 1.80 | 4.87 |
| Volume traded (thousands) | 310,802 | 237,903 |
| Value traded (\$ thousands) | 561,903 | 1,012,073 |
| Weighted average trading price (\$) | 1.81 | 4.25 |

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As of December 31, 2020, the Company is committed to future payments under the following agreements:

| (CA\$ thousands) | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Firm processing commitments ⁽¹⁾ | 11,549 | 11,557 | 11,566 | 11,607 | 9,455 | 34,776 |
| Firm transportation commitments ⁽²⁾ | 20,670 | 19,247 | 14,922 | 13,451 | 12,250 | 22,101 |
| Total commitments | 32,219 | 30,804 | 26,488 | 25,058 | 21,705 | 56,877 |

(1) A portion of Kelt’s commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on December 31, 2020 of CA\$/US\$1.2732.

Following the closing of the Inga Asset Disposition, approximately \$278.1 million of Kelt’s processing and transportation commitments were acquired by the purchaser including a take-or-pay firm processing commitment for 75 MMcf/d raw gas under a 10-year term and a firm transportation commitment on the North Montney Mainline under a 20-year term.

RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where a director of Kelt was a partner in 2020, and has engaged the services of a registrar and transfer agent where an officer of Kelt is a director of the company. During the year ended December 31, 2020, the Company incurred \$0.8 million (2019 – \$0.5 million) in disbursements to related parties.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended December 31, 2020 and 2019.

RESERVES

Kelt retained Sproule Associates Limited (“Sproule”), an independent qualified reserve evaluator to prepare a report on its oil and gas reserves (the “Sproule Report”). The Company has a Reserves Committee which oversees the selection, qualifications and reporting procedures of the independent engineering consultants. Reserves as at December 31, 2020 and at December 31, 2019 were determined using the guidelines and definitions set out under National Instrument 51-101 (“NI 51-101”). The Sproule Report is dated February 16, 2021 and is effective as of December 31, 2020.

On August 21, 2020, Kelt completed the sale of its Inga Assets, one of the Company’s four main division resulting in a overall decrease in reserves when compared to reserves at December 31, 2019. During 2020, primarily during the period subsequent to the Inga Asset Disposition, Kelt was active operationally in its remaining three main divisions, resulting in increases in all categories of reserves compared to the previous year, despite a significant reduction in Sproule’s future commodity price forecasts that resulted in negative reserve revisions due to economic factors in the 2020 reserve report.

At December 31, 2020, Kelt’s proved plus probable reserves were 178.8 million BOE, down 61% from 461.0 million BOE at December 31, 2019. The Company’s net present value of proved plus probable reserves at December 31, 2020, discounted at 10% before tax, was \$931.7 million, a decrease of 77% from \$3.9 billion at December 31, 2019. The undiscounted future net cash flow, before tax, was \$1.9 billion as of December 31, 2020, a decrease of 81% from \$10.2 billion as of December 31, 2019. Sproule’s forecasted commodity prices for 2021 used to determine the present value of the Company’s reserves at December 31, 2020, are US\$46.00 per barrel for WTI oil and CAD\$2.71 per GJ for AECO-C gas.

At December 31, 2020, the weighting of proved plus probable reserves was 42% oil/NGLs and 58% natural gas. At December 31, 2019, the weighting of proved plus probable reserves was 47% oil/NGLs and 53% natural gas.

The following table outlines a summary of the Company’s reserves volumes at December 31, 2020:

| SUMMARY OF RESERVE VOLUMES | Crude Oil (mbbls) | Liquids ⁽¹⁾ (mbbls) | Natural Gas (mmcf) | Combined (mBOE) | FDC Costs (\$ thousands) |
|-----------------------------------|----------------------|-----------------------------------|-----------------------|----------------------------|-------------------------------------|
| Proved developed producing | 4,867 | 5,333 | 116,437 | 29,606 | 25 |
| Proved developed non-producing | 646 | 491 | 6,454 | 2,213 | 18,789 |
| Proved undeveloped | 9,937 | 16,629 | 225,424 | 64,137 | 517,892 |
| Total Proved | 15,450 | 22,453 | 348,315 | 95,956 | 536,706 |
| Probable additional | 12,718 | 24,998 | 270,660 | 82,826 | 389,844 |
| Total Proved plus Probable | 28,168 | 47,451 | 618,975 | 178,782 | 926,550 |

(1) “Liquids” include field condensate and NGLs.

| CHANGE IN RESERVES – YEAR OVER YEAR (mBOE) | December 31 2020 | December 31 2019 | % Change |
|---|-----------------------------|---------------------|------------|
| Proved developed producing | 29,606 | 48,854 | -39 |
| Proved developed non-producing | 2,213 | 4,844 | -54 |
| Proved undeveloped | 64,137 | 170,884 | -62 |
| Total Proved | 95,956 | 224,582 | -57 |
| Probable additional | 82,826 | 236,399 | -65 |
| Total Proved plus Probable | 178,782 | 460,981 | -61 |

The following tables reconcile the change in total proved (“1P”) reserves and the change in total proved plus probable (“2P”) reserves during the year:

| RESERVES RECONCILIATION – 1P | Crude Oil | Liquids ⁽¹⁾ | Natural Gas | Combined |
|--|---------------|------------------------|------------------|------------------|
| TOTAL PROVED | (mbbls) | (mbbls) | (mmcf) | (mBOE) |
| Balance, December 31, 2019 | 13,687 | 89,605 | 727,740 | 224,582 |
| Extensions | 1,361 | 2,733 | 13,587 | 6,359 |
| Technical revisions | 3,257 | 3,231 | 58,365 | 16,216 |
| Economic factors | (1,246) | (2,009) | (16,948) | (6,080) |
| Dispositions | (222) | (68,388) | (404,257) | (135,986) |
| Net additions | 3,150 | (64,433) | (349,253) | (119,491) |
| 2020 Production ⁽²⁾ | (1,387) | (2,719) | (30,172) | (9,135) |
| Balance, December 31, 2020 ⁽²⁾ | 15,450 | 22,453 | 348,315 | 95,956 |

(1) “Liquids” include field condensate and NGLs.

(2) Sulphur production of 13 MBOE have been excluded in the above table.

| RESERVES RECONCILIATION – 2P | Crude Oil | Liquids ⁽¹⁾ | Natural Gas | Combined |
|--|---------------|------------------------|------------------|------------------|
| TOTAL PROVED PLUS PROBABLE | (mbbls) | (mbbls) | (mmcf) | (mBOE) |
| Balance, December 31, 2019 | 25,090 | 191,234 | 1,467,941 | 460,981 |
| Extensions | 3,274 | 8,275 | 42,604 | 18,650 |
| Technical revisions | 3,099 | 2,479 | 53,357 | 14,472 |
| Economic factors | (1,565) | (1,608) | (29,979) | (8,170) |
| Dispositions | (343) | (150,210) | (884,776) | (298,016) |
| Net additions | 4,465 | (141,064) | (818,794) | (273,064) |
| 2020 Production ⁽²⁾ | (1,387) | (2,719) | (30,172) | (9,135) |
| Balance, December 31, 2020 ⁽²⁾ | 28,168 | 47,451 | 618,975 | 178,782 |

(1) “Liquids” include field condensate and NGLs.

(2) Sulphur production of 13 MBOE have been excluded in the above table.

The following table outlines future development capital (“FDC”) (as hereafter defined) expenditures outlays for total proved reserves and total proved plus probable reserves included in the December 31, 2020 reserve evaluations:

| FDC EXPENDITURES (\$ thousands) | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
|--|--------|---------|---------|---------|---------|------------|---------|
| Proved reserves | 33,431 | 143,919 | 152,190 | 114,416 | 92,750 | - | 536,706 |
| Proved plus probable | 48,978 | 209,511 | 255,489 | 214,631 | 197,941 | - | 926,550 |

The following table outlines FDC expenditures and future wells to be drilled by province, included in the December 31, 2020 and 2019 reserve evaluations for proved plus probable reserves:

| FDC EXPENDITURES | Year ended December 31, 2020 | | Year ended December 31, 2019 | |
|--|-------------------------------------|------------------|------------------------------|-----------|
| | FDC (\$M) | Net Wells | FDC (\$M) | Net Wells |
| TOTAL PROVED PLUS PROBABLE | | | | |
| Alberta Montney Wells | 670,593 | 121.3 | 581,614 | 101.3 |
| B.C. Montney Wells | 58,076 | 11.0 | 1,463,797 | 270.0 |
| Total Montney Wells | 728,669 | 132.3 | 2,045,411 | 371.3 |
| Other formations (including Doig/Charlie Lake) | 148,778 | 42.0 | 355,148 | 85.4 |
| Other expenditures | 49,103 | - | 53,888 | - |
| Total FDC Expenditures | 926,550 | 174.3 | 2,454,447 | 456.7 |

The following table outlines forecasted future prices that Sproule has used in their evaluation of the Company's reserves at December 31, 2020:

| FUTURE COMMODITY PRICE FORECAST | WTI Cushing | Canadian | NYMEX | AECO-C | USD/CAD |
|---------------------------------|--------------|--------------|-------------|-------------|-------------|
| | Oklahoma | Light Sweet | Henry Hub | Spot | Exchange |
| | US\$/bbl | CA\$/bbl | US\$/MMBtu | CA\$/GJ | US\$/CA\$ |
| 2021 | 46.00 | 54.55 | 3.00 | 2.71 | 0.77 |
| 2022 | 48.00 | 57.14 | 3.00 | 2.64 | 0.77 |
| 2023 | 53.00 | 63.64 | 3.00 | 2.55 | 0.77 |
| 2024 | 54.06 | 64.91 | 3.06 | 2.61 | 0.77 |
| 2025 | 55.14 | 66.21 | 3.12 | 2.66 | 0.77 |
| Five year average | 51.24 | 61.29 | 3.04 | 2.63 | 0.77 |

The following table summarizes the net present value of the Company's reserves (before tax) as at December 31, 2020:

| NET PRESENT VALUE (BEFORE TAX) | | | | |
|-----------------------------------|----------------|----------------|--------------|--|
| (CA\$ millions) | Undiscounted | NPV 5% BT | NPV 10% BT | |
| Proved developed producing | 141.0 | 210.0 | 202.5 | |
| Proved developed non-producing | 17.2 | 11.8 | 7.9 | |
| Proved undeveloped | 608.9 | 360.7 | 219.5 | |
| Total Proved | 767.1 | 582.5 | 429.9 | |
| Probable additional | 1,139.4 | 727.9 | 501.8 | |
| Total Proved plus Probable | 1,906.5 | 1,310.4 | 931.7 | |

The following table summarizes the net present value of the Company's reserves (after tax) as at December 31, 2020:

| NET PRESENT VALUE (AFTER TAX) | | | | |
|-----------------------------------|----------------|----------------|--------------|--|
| (CA\$ millions) | Undiscounted | NPV 5% AT | NPV 10% AT | |
| Proved developed producing | 141.0 | 210.0 | 202.5 | |
| Proved developed non-producing | 17.2 | 11.8 | 7.9 | |
| Proved undeveloped | 566.2 | 340.1 | 209.1 | |
| Total Proved | 724.4 | 561.9 | 419.5 | |
| Probable additional | 876.5 | 562.7 | 390.2 | |
| Total Proved plus Probable | 1,600.9 | 1,124.6 | 809.7 | |

During 2020, the Company's capital expenditures, net of dispositions, resulted in net proved plus probable reserve dispositions of 273.0 million BOE, resulting in 2P finding, development, acquisition and disposition ("FDA&D") costs of \$6.89 per BOE (2019 - \$7.66 per BOE), including FDC expenditures. Net proved reserve dispositions in 2020 were 119.5 million BOE, resulting in proved FDA&D costs of \$10.01 per BOE (2019 - \$10.68 per BOE), including FDC expenditures.

Capital expenditures, after dispositions, in 2020 were negative \$354.0 million. The Company completed the disposition of reserves relating to the Inga Assets at a price that exceeded the FD&A cost to add reserves in all of the Company's other assets. Despite significantly lower commodity prices in 2020, Kelt was able to generate a 2P recycle ratio of 1.2 times for the year.

The following table outlines the calculation of the Company's 1P FD&A costs and 1P recycle ratio:

| FINDING, DEVELOPMENT & ACQUISITION COSTS – 1P <i>(CA\$ thousands, except as otherwise noted)</i> | Year ended December 31 | |
|--|------------------------|---------|
| | 2020 | 2019 |
| Proved (1P) reserves: | | |
| Total capital expenditures, net of dispositions ⁽¹⁾ | (353,957) | 315,624 |
| Change in FDC costs required to develop 1P reserves | (842,190) | 507,348 |
| Total capital costs | (1,196,147) | 822,972 |
| 1P Reserve additions, net (mBOE) | (119,491) | 77,053 |
| 1P FD&A cost, including FDC (\$/BOE) | 10.01 | 10.68 |
| Operating netback (\$/BOE) ⁽²⁾ | 8.41 | 18.89 |
| 1P Recycle ratio | 0.8 x | 1.8 x |

(1) Comprised of the Company's total exploration and development capital expenditures, as well as acquisitions, net of proceeds from dispositions. Refer to "Capital Expenditures" table in this MD&A.

(2) Kelt's "Operating netback" calculation is provided under the heading of "Non-GAAP Financial Measures and Other Key Performance Indicators".

The following table outlines the calculation of the Company's 2P FD&A costs and 2P recycle ratio:

| FINDING, DEVELOPMENT & ACQUISITION COSTS – 2P <i>(CA\$ thousands, except as otherwise noted)</i> | Year ended December 31 | |
|--|------------------------|-----------|
| | 2020 | 2019 |
| Proved plus probable (2P) reserves: | | |
| Total capital expenditures, net of dispositions ⁽¹⁾ | (353,957) | 315,624 |
| Change in FDC costs required to develop 2P reserves | (1,527,897) | 980,349 |
| Total capital costs | (1,881,854) | 1,295,973 |
| 2P Reserve additions, net (mBOE) | (273,064) | 169,217 |
| 2P FD&A cost, including FDC (\$/BOE) | 6.89 | 7.66 |
| Operating netback (\$/BOE) ⁽²⁾ | 8.41 | 18.89 |
| 2P Recycle ratio | 1.2 x | 2.5 x |

(1) Comprised of the Company's total exploration and development capital expenditures, as well as acquisitions, net of proceeds from dispositions. Refer to "Capital Expenditures" table in this MD&A.

(2) Kelt's "Operating netback" calculation is provided under the heading of "Non-GAAP Financial Measures and Other Key Performance Indicators".

"FD&A cost per BOE" is a key performance indicator commonly used in the oil and gas industry. Readers are cautioned that these amounts may not be directly comparable to other companies, as the term "FD&A cost" does not have a standardized meaning under GAAP or NI 51-101 (refer to advisories under the heading of "Non-GAAP Financial Measures and Other Key Performance Indicators").

The recycle ratio is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment. It accomplishes this by comparing the operating netback per BOE to the same period's reserve FD&A cost per BOE.

NET ASSET VALUE

The Company estimates its net asset value to be \$1.0 billion or \$5.44 per common share as at December 31, 2020 based on the present value of its 2P reserves before tax, discounted at 10%. The components of Kelt's net asset value calculation are set-forth in the table below. The reader is cautioned that these amounts may not be directly comparable to other companies, as the term "net asset value" does not have a standardized meaning under GAAP or NI 51-101. The net present value of petroleum and natural gas ("P&NG") reserves was determined by Sproule in their year-end evaluation reports, based on a discount rate of 10% before-tax. Undeveloped land at December 31, 2020 was internally valued at an average price of \$195 per acre (2019 – \$600 per acre).

| <i>(CA\$ thousands, except per share amounts)</i> | December 31, 2020 | December 31, 2019 |
|--|--------------------------|-------------------|
| Present value of 2P P&NG reserves, discounted at 10% before tax | 931,756 | 3,988,482 |
| Undeveloped land | 80,196 | 350,617 |
| Net bank debt (surplus) ⁽³⁾ | 26,261 | (328,080) |
| Proceeds from exercise of stock options ⁽¹⁾ | 2,331 | 29,145 |
| Net asset value | 1,040,544 | 4,040,164 |
| Common shares, RSU's and "in the money" stock options (000s) ⁽¹⁾⁽²⁾ | 191,271 | 215,187 |
| Net asset value (\$ per common share) | 5.44 | 18.78 |

(1) The calculation of proceeds from exercise of stock options and the diluted number of common shares outstanding only include stock options that are "in-the-money" based on the closing price of KEL of \$1.80 and \$4.64 per common share respectively, as at December 31, 2020 and 2019. All outstanding RSUs are included in diluted common shares outstanding.

(2) The 5% convertible debentures that mature on May 31, 2021 are convertible to common shares at \$5.50 per share. At the December 31, 2019 closing price of \$4.87 per share, the convertible debentures are "out-of-the-money" and 19.4 million shares issuable at a 5% discount are included in diluted common shares outstanding.

(3) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

SUMMARY OF QUARTERLY RESULTS

The following tables summarize the Company's financial and operating results over the past eight quarters:

| <i>(CA\$ thousands, except as otherwise indicated)</i> | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 |
|--|-----------------|------------|-----------|-----------|
| Petroleum and natural gas sales | 41,961 | 48,823 | 45,454 | 70,918 |
| Cash provided by (used in) operating activities | 3,288 | (8,610) | 14,429 | 50,172 |
| Adjusted funds from operations ⁽¹⁾ | 10,758 | 9,002 | 11,712 | 27,360 |
| Per share – basic (\$/common share) | 0.06 | 0.05 | 0.06 | 0.15 |
| Per share – diluted (\$/common share) | 0.06 | 0.05 | 0.06 | 0.15 |
| Profit (loss) and comprehensive income (loss) | 26,018 | (24,080) | (252,661) | (74,085) |
| Per share – basic (\$/common share) | 0.14 | (0.13) | (1.35) | (0.39) |
| Per share – diluted (\$/common share) | 0.14 | (0.13) | (1.35) | (0.39) |
| Total capital expenditures, net of dispositions | 24,470 | (497,321) | 27,768 | 91,126 |
| Total assets | 759,987 | 824,751 | 1,295,965 | 1,608,870 |
| Net bank debt (surplus) ⁽¹⁾ | (26,261) | (127,584) | 383,200 | 344,664 |
| Convertible debentures | - | 89,910 | 85,181 | 83,957 |
| Shareholders' equity | 603,684 | 576,862 | 599,399 | 850,486 |
| Average daily production (BOE/d) | 16,476 | 22,443 | 30,366 | 30,806 |
| Average realized price (\$/BOE) ⁽¹⁾⁽²⁾ | 23.90 | 19.31 | 20.67 | 26.65 |
| Operating netback (\$/BOE) ⁽¹⁾ | 8.40 | 7.02 | 6.56 | 11.28 |
| Operating netback % of average realized price ⁽²⁾ | 35% | 36% | 32% | 42% |

| | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|-----------|-----------|-----------|-----------|
| Petroleum and natural gas sales | 97,763 | 93,274 | 100,734 | 102,585 |
| Cash provided by operating activities | 35,396 | 14,640 | 58,639 | 53,813 |
| Adjusted funds from operations ⁽¹⁾ | 46,655 | 39,173 | 45,234 | 51,459 |
| Per share – basic (\$/common share) | 0.25 | 0.21 | 0.25 | 0.28 |
| Per share – diluted (\$/common share) | 0.25 | 0.21 | 0.25 | 0.28 |
| Profit (loss) and comprehensive income (loss) | (2,628) | (2,909) | 2,740 | 9,369 |
| Per share – basic (\$/common share) | (0.01) | (0.02) | 0.01 | 0.05 |
| Per share – diluted (\$/common share) | (0.01) | (0.02) | 0.01 | 0.05 |
| Total capital expenditures, net of dispositions | 63,983 | 52,657 | 91,022 | 107,962 |
| Total assets | 1,605,465 | 1,602,566 | 1,577,824 | 1,515,227 |
| Net bank debt ⁽¹⁾ | 328,080 | 320,507 | 308,636 | 258,351 |
| Convertible debentures | 82,789 | 81,630 | 80,512 | 79,426 |
| Shareholders' equity | 923,062 | 908,190 | 909,373 | 904,835 |
| Average daily production (BOE/d) | 31,262 | 31,150 | 30,314 | 27,057 |
| Average realized price (\$/BOE) ⁽¹⁾⁽²⁾ | 32.53 | 30.85 | 35.01 | 40.31 |
| Operating netback (\$/BOE) ⁽¹⁾ | 18.65 | 15.68 | 18.50 | 23.39 |
| Operating netback as a % of average realized price ⁽²⁾ | 57% | 51% | 53% | 58% |

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

(2) In this table, average realized prices are after financial instruments.

Kelt's realized oil prices and production volumes increased at the beginning of 2019, combined with higher average production, drove the increase in Company revenues, cash provided by operating activities, and operating netbacks during the first quarter of 2019. In the last nine months of 2019 concerns about global consumer demand and a reduction of future forecasted oil demand resulted in lower global benchmark oil prices.

In March 2020, the WHO declared the COVID-19 a pandemic with governments around the world imposing significant public health measures in order to reduce its spread. The COVID-19 pandemic created an unprecedented global crude oil demand reduction for 2020, resulting in a significant decrease in 2020 benchmark crude oil prices as well as forecasted future crude oil prices.

On August 21, 2020, Kelt completed the Inga Asset Disposition for consideration of \$503.9 million after closing adjustments. This resulted in a reduction of Kelt's production and total assets subsequent to the transaction, along with a full repayment of the Company's outstanding bank debt and the redemption of all outstanding convertible debentures.

Crude oil prices reached a bottom in the second quarter of 2020, with unprecedented negative WTI benchmark prices being reached in April 2020. At the end of 2020, positive vaccine development and rollout, along with significant production curtailments from OPEC+ and non-OPEC nations, resulted in a significant re-bounce in crude oil prices reaching \$47.02 per BBL in December 2020. However potential delays in the rollout of global vaccination programs, the emergence of new COVID-19 variants, and uncertainty around the continuation of production curtailments, continues to impact forecasts on the estimated length of the pandemic, the extent of the impact on the global economy, and the future impact of the pandemic on the oil and gas industry.

Benchmark natural gas prices in the US declined in the first half of 2020 with higher than average North American natural gas inventory levels and demand concerns relating to the COVID-19 pandemic. Offsetting the downward pressure in natural gas benchmark prices is a decrease in North American natural gas supply in 2020 due to a reduction of drilling activity in the North American basins.

Canadian natural gas prices have improved in 2020 as changes to increased demand and exports as well as the priority service for the Nova Gas Transmission Ltd. natural gas pipeline to allow deliveries of natural gas into storage during seasonal gas demand lows and maintenance. This additional storage capacity has resulted in a re-balancing of the Canadian natural gas market and has significantly narrowed the Canadian/US natural gas differentials.

Refer to the “Financial and Operating Summary” 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

SELECTED ANNUAL INFORMATION

The following table summarizes key annual financial and operating information over the three most recently completed financial years.

| <i>(CA\$ thousands, except as otherwise indicated)</i> | 2020 | 2019 | 2018 |
|---|-----------|-----------|-----------|
| Petroleum and natural gas sales | 207,156 | 394,356 | 389,277 |
| Cash provided by operating activities | 59,279 | 162,488 | 186,383 |
| Adjusted funds from operations ⁽¹⁾ | 58,832 | 182,521 | 186,839 |
| Per share – basic (\$/common share) | 0.31 | 0.99 | 1.02 |
| Per share – diluted (\$/common share) | 0.31 | 0.99 | 1.01 |
| Profit (loss) and comprehensive income (loss) | (324,807) | 6,572 | 8,154 |
| Per share – basic (\$/common share) | (1.73) | 0.04 | 0.04 |
| Per share – diluted (\$/common share) | (1.73) | 0.04 | 0.04 |
| Total capital expenditures, net of dispositions | (353,957) | 315,624 | 285,498 |
| Total assets | 759,987 | 1,605,465 | 1,423,521 |
| Net bank debt (surplus) ⁽¹⁾ | (26,261) | 328,080 | 196,416 |
| Convertible debentures | - | 82,789 | 78,390 |
| Shareholders’ equity | 603,684 | 923,062 | 893,796 |
| Average daily production (BOE/d) | 24,992 | 29,961 | 27,006 |
| Average realized price (\$/BOE) ⁽¹⁾⁽²⁾ | 22.72 | 34.45 | 36.70 |
| Operating netback (\$/BOE) ⁽¹⁾ | 8.41 | 18.89 | 20.56 |
| Operating netback as a % of average realized price ⁽²⁾ | 37% | 55% | 56% |

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

(2) In this table, average realized prices are after financial instruments.

OUTLOOK AND GUIDANCE

The Company’s Board of Directors has approved an increase to the 2021 capital expenditure budget of \$30.0 million to \$120.0 million. The 2021 capital expenditures are expected to be allocated as follows: \$78.5 million for drilling and completing wells, \$36.5 million for facilities, pipeline and equipment and \$5.0 million for land and seismic. Kelt expects to drill 15.0 net wells, complete 18.0 net wells and have 4.0 net DUC wells by the end of 2021.

The increase to the capital program is expected to be funded by the increase to adjusted funds from operations after taking in to account the improvement in commodity prices from November 10, 2020, the date of the Company’s original 2021 guidance. Kelt is continuing to forecast a positive working capital balance at the end of 2021.

Forecasted average production for 2021 is estimated to be approximately 19,000 BOE per day, representing 15% growth from the fourth quarter of 2020. Kelt’s forecasted 2021 production will be weighted approximately 38% to oil and NGLs and 62% to natural gas.

WTI crude oil prices are forecasted to average US\$59.95 per barrel in 2021, and Canadian Light Sweet is forecasted to average \$70.16 per barrel in 2021, an increase of 53% and 55% respectively over 2020 prices. Natural gas prices are forecast to average US\$2.28 per mmbtu for AECO and US\$2.82 per mmbtu for NYMEX in 2021, an increase of 37% and 36% respectively over 2020 prices.

The Company has reduced its NYMEX Henry Hub natural gas forecast for 2021 to US\$2.82 per MMBtu, down 9% from its previous forecast. Kelt estimates that the CAD/USD exchange rate will average \$1.267 (US\$0.798), up 6% from its previous forecast of \$1.340 (US\$0.746).

Using the revised commodity price forecasts for 2021 and including the hedging contracts, Kelt is forecasting 2021 adjusted funds from operations of \$107.0 million, up 61% from its previous forecast. Kelt estimates a working capital surplus of \$7.0 million at the end of December 31, 2021. The Company's 2021 capital program is expected to be funded by Kelt's adjusted funds from operations and available cash as of December 31, 2020.

A 10% increase/decrease in the Company's forecasted average oil/NGLs price for 2021 would increase/decrease forecasted adjusted funds from operations by approximately \$8.6 million. A 10% increase/decrease in the Company's average gas price forecasted for 2021 would increase/decrease adjusted funds from operations by approximately \$6.6 million.

The table below outlines the Company's updated forecast for 2021 with a comparison to the previously announced guidance included in Kelt's press release dated November 10, 2020 and comparison to 2020 actuals:

| | Current 2021 Budget | Previous 2021 Guidance (Nov 10, 2020) | % Change to Current 2021 Budget | 2020 Actuals | % Change to Current 2021 Budget |
|--|------------------------------------|--|--|-------------------------|--|
| <i>(CA\$ millions, except as otherwise indicated)</i> | | | | | |
| Average Production | | | | | |
| Oil and NGLs (bbls/d) | 7,145 | 6,500 | 10 | 11,218 | -36 |
| Gas (mmcf/d) | 71 | 66 | 8 | 83 | -14 |
| Combined (BOE/d) | 19,000 | 17,500 | 9 | 24,992 | -24 |
| Production per million common shares (BOE/d) | 101 | 93 | 9 | 133 | -24 |
| Forecasted Average Commodity Prices | | | | | |
| WTI oil price (US\$/bbl) | 59.95 | 38.50 | 56 | 39.24 | 53 |
| Canadian Light Sweet (\$/bbl) | 70.16 | 46.23 | 52 | 45.34 | 55 |
| NYMEX natural gas price (US\$/MMBTU) | 2.82 | 3.10 | -9 | 2.08 | 36 |
| AECO natural gas price (US\$/MMBTU) | 2.28 | 2.40 | -5 | 1.67 | 37 |
| Average Exchange Rate (US\$/CA\$) | 0.789 | 0.746 | 6 | 0.746 | 6 |
| Capital Expenditures | | | | | |
| Drilling & completions | 78.5 | 58.5 | 34 | 70.2 | 12 |
| Facilities, pipeline & well equipment | 36.5 | 27.5 | 33 | 78.7 | -54 |
| Land & seismic | 5.0 | 4.0 | 25 | 3.2 | 54 |
| Property acquisitions and dispositions | - | - | - | (2.2) | -100 |
| Total Capital Expenditures before Inga Asset Disposition | 120.0 | 90.0 | 33 | 149.9 | -20 |
| Inga Asset Disposition | - | - | - | (503.9) | -100 |
| Net Capital Expenditures | 120.0 | 90.0 | 33 | (354.0) | -134 |
| Adjusted funds from operations ⁽¹⁾ | 107.0 | 66.5 | 61 | 58.8 | 82 |
| Per common share, diluted ⁽¹⁾ | 0.56 | 0.35 | 60 | 0.31 | 81 |
| Net bank debt (surplus) ⁽¹⁾ | (7.0) | (4.0) | 75 | (26.3) | -73 |
| Weighted average common shares outstanding (millions) ⁽¹⁾ | 188.6 | 188.6 | - | 188.1 | - |

(1) Refer to advisories regarding non-GAAP financial measures and other key performance indicators.

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 increase or decrease expenditures into the future if the current economic environment deteriorates rapidly.

Changes in forecasted commodity prices and variances in production estimates can have a significant impact on estimated adjusted 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 the calendar year 2021. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

SIGNIFICANT JUDGMENTS AND ESTIMATES

The significant accounting policies applied by the Company are disclosed in note 4 of the consolidated annual financial statements as at and for the year ended December 31, 2020. The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in the consolidated annual financial statements are discussed below.

Depletion, depreciation and reserves

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

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

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

Exploration and evaluation assets

Judgment is required to determine the level at which E&E is assessed for impairment. For Kelt, the carrying value of E&E assets is assessed for overall impairment at the operating segment level and on a specific identification basis prior to transferring E&E assets to PP&E. The decision to transfer assets from E&E to PP&E requires judgment as it is based on estimated proved reserves, which are used, in part, to determine a project’s technical feasibility and commercial viability. Refer to additional information regarding E&E assets in note 6 of the consolidated annual financial statements.

Determination of Cash Generating Units (“CGUs”)

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. As at December 31, 2020, the Company has one CGU for its assets located in the province of British

Columbia and one CGU for its assets located in the province of Alberta. Refer to specific information regarding the Company's CGUs in note 7 of the consolidated annual financial statements.

Impairment of non-financial assets

Significant judgment is required to assess the Company's non-financial assets, namely E&E and PP&E, for impairment or potential reversals of previously recorded impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale. In addition, judgment is required to assess whether a previously recognized impairment for an asset no longer exists or has decreased.

Significant assumptions used to estimate the recoverable amount of PP&E in the impairment test include proved and probable reserve volumes, long term commodity price forecasts, future production volumes, future production costs, future development capital expenditures and the discount rate.

Significant judgment and estimates are required to calculate the recoverable amount of PP&E in an impairment test. Management calculates the recoverable amount of each CGU based on its FVLCD, using an after-tax discounted cash flow analysis derived from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and are subject to variability due to changes in forecasted commodity prices. In addition, the present value of forecast future cash flows is highly sensitive to the discount rate. Judgment is required to determine an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Refer to note 7 of the consolidated annual financial statements for a discussion of the specific estimates and assumptions applied in the impairment test performed at December 31, 2020.

Business combinations

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

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and infrastructure. In most instances, dismantling of assets and remediation occurs many years into the future. The value of the ultimate decommissioning obligation can fluctuate in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, changes to the risk-free discount rate and changes to inflation. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate. Key assumptions are disclosed in note 10 of the consolidated annual financial statements.

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

Deferred income taxes

The Company follows the liability method for calculating deferred income taxes. Tax interpretations, regulations and

legislation in the jurisdictions in which the Company operates are subject to change. As such, deferred income taxes are subject to measurement uncertainty. The provision for deferred income taxes also includes the following significant judgments of management:

- Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings, and are reduced to the extent it is no longer probable that the related tax benefit will be realized. The Company's non-capital losses expire in years 2039 to 2040.
- Intangible drilling and completion costs booked as Canadian development expenses ("CDE") may be deducted on a declining basis at 30%-45% per year. The allocation of costs to CDE may therefore impact the period in which Kelt may become taxable in the future. In addition, the designation of CDE expenditures may impact the Company's ability to satisfy its flow-through share obligations; and
- Recognition of unrecognized deferred income tax asset – per IAS 12, deferred income taxes are not initially recognized on transactions that are not business combinations. The Company did not initially recognize a deferred income tax asset of \$14.4 million that arose on the spin-out of certain assets from Celtic Exploration Ltd. ("Celtic") at Kelt's inception on February 26, 2013. The initially unrecognized deferred tax asset is now being amortized at a rate of 2.5% per quarter, which management believes is a reasonable estimate as it reflects the weighted average depletion rate of the properties at the time of the spin-out and is aligned with Kelt's corporate average depletion rate.

Share based compensation

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

For stock options, the Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in note 13 of the consolidated annual financial statements.

The fair value of restricted share units is estimated based on the volume weighted average trading price ("VWAP") on the TSX over three trading days immediately prior to the date of grant. Judgment is also required to estimate the rate of forfeiture, or number of restricted share units that will ultimately vest. The assumptions used by the Company are discussed in note 13 of the consolidated annual financial statements.

Flow-through shares

Flow through shares are accounted for under the residual method. Under this method, judgement is required to determine the fair value of ordinary shares. Typically, it is based on the share price at the time the parties agree to the transaction. In situations where flow-through shares are issued concurrent with an ordinary common share offering, the difference in subscription prices is used to value the premium. Otherwise, the Company uses the VWAP of KEL common shares for the five trading days immediately preceding the date of the binding agreement, to value the ordinary common shares.

Judgment is also required to determine when the Company has fulfilled its obligation to pass on the tax deduction to investors, at which time the premium on flow-through shares is recognized in income. The Company deems the obligation to have been fulfilled in the period that eligible expenditures are incurred, regardless of the period in which the tax deductions are legally renounced.

Leases

The Company applies judgement in reviewing each of its contractual arrangements to determine whether the lease falls within the scope of IFRS 16. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

The measurement of right-of-use ("ROU") assets and lease liabilities are subject to management's judgement of the

applicable incremental borrowing rate when the rate implicit in a lease is not readily determinable. Applicable incremental borrowing rates are based on management's judgements of the economic environment, term, the underlying risk inherent to the asset (which may vary due to changes in the market conditions) and the expected lease term.

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.

The CEO and the CFO have evaluated the effectiveness of Kelt's disclosure controls and procedures as at December 31, 2020 and have concluded that such disclosure controls and procedures are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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.

A significant portion of the Company's workforce has been working remotely since March 2020 due to the COVID-19 pandemic, however there were no significant changes to the Company's internal controls over financial reporting during the interim period from October 1, 2020 to December 31, 2020 and year ended December 31, 2020. The CEO and the CFO have evaluated the effectiveness of Kelt's internal controls over financial reporting as at December 31, 2020 and have concluded that such internal controls over financial reporting are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 Company is exposed to various operational and financial risks inherent in the exploration, development, production and marketing of crude oil, NGLs and natural gas liquids. These inherent risks include, but are not limited to, the following:

- The impact of the COVID-19 virus on the global economy and crude oil demand;
- Reservoir quality and the uncertainty of reserves estimates;
- Volatility in the prevailing prices of crude oil, NGLs and natural gas;
- The actions of OPEC+ on global oil supply and its impact on price;
- Regulatory risk related to the approval for exploration and development activities, which can add to costs or cause delays in projects;
- Environmental impact risk associated with exploration and development activities, including GHG;

- Future legislative and regulatory developments related to environmental regulation;
- Geopolitical risks associated with changing governments or governmental policies, social instability and other political, economic or diplomatic developments in the regions where the Company has its operations;
- The ability to find, produce and replace reserves at a reasonable cost, including the risk of reserve revisions due to economic and technical factors. Reserve revisions can have a positive or negative impact on asset valuations, ARO, lending capacity and depletion rates;
- Labour risk to complete projects in a timely and cost efficient manner;
- Operating hazards inherent in the exploration, development, production and sale of crude oil and natural gas;
- Credit risk related to non-payment for sales contracts or other counterparties;
- Interest rate risk associated with the Company's ability to ability to secure financing on commercially acceptable terms;
- Foreign exchange risk as commodity sales are predominantly based on US dollar denominated benchmarks;
- Business interruptions because of unexpected events such as fires or explosions whether caused by human error or nature, severe storms and other calamitous acts of nature, blowouts, freeze-ups, mechanical or equipment failures of facilities and infrastructure and other similar events affecting the Company or other parties whose operations or assets directly or indirectly impact the Company and that may or may not be financially recoverable;
- Potential actions of governments, regulatory authorities and other stakeholders that may result in costs or restrictions in the jurisdictions where the Company has operations;
- Changing carbon tax and royalty regimes. The Company incurred \$4.1 million in carbon tax expense in 2020. The majority of the carbon tax in 2020 and relates to Kelt's BC operations;
- The ability to secure adequate transportation for products which could be affected by pipeline and storage constraints, the construction by third parties of new or expansion of existing pipeline capacity and other factors;
- The access to markets for the Company's products; and
- The risk of significant interruption or failure of the Company's information technology systems and related data and control systems or a significant breach that could adversely affect the Company's operations.

The Company uses a variety of means to help mitigate or minimize these risks. The Company maintains a comprehensive insurance program to reduce risk. Operational control is enhanced by focusing on large core areas with high working interests and operatorship of drilling and completion operations. Product mix is diversified between natural gas, NGLs and oil which reduces price risk in certain market conditions. Accounts receivable from the sale of crude oil and natural gas are mainly with customers in the crude oil and natural gas industry and are subject to normal industry credit risks. The Company manages these risks by monitoring exposure to individual customers, contractors, suppliers and joint venture partners on a regular basis and when appropriate, ensuring parental guarantees or letters of credit are in place, and as applicable, taking other mitigating actions to minimize the impact in the event of a default. The Company is exposed to possible losses in the event of non-performance by counterparties to derivative financial instruments; however, the Company manages this credit risk by primarily entering into agreements with counterparties that are investment grade financial institutions, and reviews its counterparties on an on-going basis. The Company has implemented cyber security protocols and procedures to reduce the risk of failure or a significant breach of the Company's information technology systems and related data and control systems. The Company's capital structure mix is also monitored on a continual basis to ensure that it optimizes flexibility, minimizes cost and offers the greatest opportunity for growth. This includes the determination of a reasonable level of debt and any interest rate exposure risk that may exist.

A more detailed description of the Company's risks is included in the Annual Information Form as at December 31, 2020, dated March 10, 2021 which can be found at www.sedar.com.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

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 the calendar year 2020. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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, many 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. 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.

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”, “potentially” 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: Kelt’s expected price realizations and future commodity prices; the cost and timing of future capital expenditures and expected results; the Company’s ability to continue accumulating land at a low-cost in its core operating areas and potentially monetize non-core assets; the expected timing of well completions, the expected timing of wells brought on-production, the expected timing of facility expenditures, the expected timing of facility start-up dates, the expected timing of production additions from capital expenditures; and the Company’s expected future financial position and operating results. 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, 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; 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.

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

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

This MD&A contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. In addition, this MD&A contains other key performance indicators (“KPI”), financial and non-financial, that do not have standardized meanings under the applicable securities legislation. As these non-GAAP financial measures and KPI 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.

Non-GAAP financial measures

“Operating income” is calculated by deducting royalties, production expenses and transportation expenses from petroleum and natural gas sales, net of the cost of purchases and after realized gains or losses on associated financial instruments. The Company refers to operating income expressed per unit of production as an “operating netback”.

“Adjusted funds from operations” is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs associated with acquisitions and dispositions, provisions for potential credit losses, and settlement of decommissioning obligations. Adjusted 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.

Adjusted funds from operations, annualized quarterly adjusted funds from operations and operating income or netbacks are non-GAAP measures used by management to measure operating performance. Adjusted funds from operations, annualized quarterly adjusted funds from operations, and operating income or netbacks are non-GAAP measures used by management as a key measure to assess the ability of the Company to fund operating activities, capital expenditures and the repayment of debt however; it is not intended to 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 reported in accordance with GAAP to *Adjusted funds from operations*:

| (CA\$ thousands, unless otherwise indicated) | Three months ended December 31 | | | Year ended December 31 | | |
|--|--------------------------------|--------|-----|------------------------|---------|------|
| | 2020 | 2019 | % | 2020 | 2019 | % |
| Cash provided by operating activities | 3,288 | 35,396 | -91 | 59,279 | 162,488 | -64 |
| Change in non-cash working capital | 6,620 | 11,045 | -40 | (2,392) | 17,699 | -114 |
| Funds from operations | 9,908 | 46,441 | -79 | 56,887 | 180,187 | -68 |
| Settlement of decommissioning obligations | 850 | 214 | 297 | 1,945 | 2,334 | -17 |
| Adjusted funds from operations | 10,758 | 46,655 | -77 | 58,832 | 182,521 | -68 |

Throughout this MD&A, reference is made to “total revenue”, “Kelt Revenue” and “average realized prices”. “Total revenue” refers to petroleum and natural gas sales (before royalties) as reported in the consolidated financial statements in accordance with GAAP, and is before realized gains or losses on financial instruments. “Kelt Revenue” is a non-GAAP measure and is calculated by deducting the cost of purchases from petroleum and natural gas sales (before royalties). “Average realized prices” are calculated based on “Kelt Revenue” divided by production and reflect the Company’s realized selling prices plus the net benefit of oil blending/marketing activities. In addition to using its own production, the Company may purchase butane and crude oil from fourth parties for use in its blending operations, with the objective of selling the blended oil product at a premium. Marketing revenue from the sale of third-party volumes is included in total petroleum and natural gas sales as reported in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) in accordance with GAAP. Given the Company’s per unit operating statistics disclosed throughout this MD&A are calculated based on Kelt’s production volumes, management believes that disclosing its average realized prices based on Kelt Revenue is more appropriate and useful, because the cost of third party volumes purchased to generate the incremental marketing revenue has been deducted.

“Average realized prices” referenced throughout this MD&A are before financial instruments, except as otherwise indicated as being after financial instruments.

“Net bank debt (surplus)” is equal to “bank debt”, net of “working capital deficit (surplus)”. Working capital deficit (surplus) excludes current bank debt, current convertible debentures, and assets and liabilities held for sale. “Net bank

debt (surplus)" is calculated by adding the working capital deficit (surplus) to bank debt. The Company uses a "net bank debt (surplus) and working capital deficit (surplus) to annualized quarterly adjusted funds from operations ratio" and as a benchmark on which management monitors the Company's capital structure and short-term financing requirements. Management believes that this ratio, as well as the Company's "net bank debt (surplus)", provides investors with information to understand the Company's liquidity risk. The "net bank debt (surplus) and working capital deficit (surplus) to annualized quarterly adjusted funds from operations ratio" is also indicative of the "net debt (surplus) 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).

Other KPI

"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.

"Finding, development and acquisition" ("FD&A") cost is the sum of capital expenditures incurred in the period and the change in future development capital ("FDC") required to develop reserves. FD&A cost per BOE is determined by dividing current period net reserve additions into the corresponding period's FD&A cost. Readers are cautioned that the aggregate of capital expenditures incurred in the year, comprised of exploration and development costs and acquisition costs, and the change in estimated FDC generally will not reflect total FD&A costs related to reserves additions in the year.

"Recycle ratio" is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment by comparing the operating netback per BOE to FD&A cost per BOE.

"Net asset value" is calculated by adding the present value of proved plus probable petroleum and natural gas reserves discounted at 10% before tax, undeveloped land value, proceeds from exercise of stock options, and net bank debt (surplus). "Net asset value per common share" is calculated by dividing the "Net Asset Value" by the diluted number of common shares outstanding. The calculation of proceeds from exercise of stock options and the diluted number of common shares outstanding only include stock options that are "in-the-money" based on the closing price of KEL common shares as at the calculation date. The diluted number of common shares outstanding includes common shares issuable upon conversion of the convertible debentures that are "in-the-money" based on the closing price of KEL common shares as at the calculation date.

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 10, 2021 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 and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to Kelt is also available on its website at www.keltexploration.com.



MANAGEMENT'S REPORT

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

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

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

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

[signed]

David J. Wilson
President and Chief Executive Officer
March 11, 2021

[signed]

Sadiq H. Lalani
Vice President and Chief Financial Officer
March 11, 2021



Independent auditor's report

To the Shareholders of Kelt Exploration Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kelt Exploration Ltd. and its subsidiary (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of profit (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p data-bbox="254 567 876 661">The impact of crude oil and natural gas reserves on net property, plant and equipment (PP&E)</p> <p data-bbox="254 693 876 819"><i>Refer to note 3(c) – Significant judgments and estimates, note 4 – Significant and new accounting policies and note 6 – Property, plant and equipment to the consolidated financial statements.</i></p> <p data-bbox="254 850 876 1123">The Company has \$608 million of net PP&E as at December 31, 2020. Depletion and depreciation (D&D) expense was \$113 million for the year then ended. PP&E is depleted using the unit of production method by reference to the ratio of production in the year to the related proved reserves, taking into account estimated future development costs necessary to bring those reserves into production.</p> <p data-bbox="254 1155 876 1824">On a quarterly basis, management assesses its cash generating units (CGUs) for indicators that suggest that the carrying amount of a CGU may exceed its recoverable amount. Where such indicators are identified, management performs an impairment test. Impairment is evaluated by comparing the recoverable amount of the CGU to its carrying amount. Management used fair value less costs of disposal (FVLCD), estimated based on the discounted after-tax cash flows from proved plus probable crude oil and natural gas reserves less estimated selling costs, to determine the recoverable amounts of the Company's CGUs. The Company's crude oil and natural gas reserves are prepared by the Company's independent qualified reserve evaluator (management's experts). As at March 31, 2020, an impairment test was conducted over all of the Company's CGUs. Based on the impairment test performed on the Alberta CGU, it was determined that the carrying value was in excess of the recoverable amount, resulting in an</p> | <p data-bbox="876 567 1513 640">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="876 672 1513 1824" style="list-style-type: none"><li data-bbox="876 672 1513 1060">• The work of management's experts was used in performing the procedures to evaluate the reasonableness of the crude oil and natural gas reserves used to determine the D&D expense and the recoverable amount of the Company's CGUs. As a basis for using this work, management's experts' competence, capacity and objectivity were evaluated, their work performed was understood and the appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the methods and assumptions.<li data-bbox="876 1081 1513 1824">• Tested how management determined the recoverable amount of the Company's CGUs and D&D expense, which included the following:<ul data-bbox="941 1218 1513 1824" style="list-style-type: none"><li data-bbox="941 1218 1513 1312">– Evaluated the appropriateness of the methods used by management in making these estimates.<li data-bbox="941 1333 1513 1396">– Tested the data used in determining these estimates.<li data-bbox="941 1417 1513 1753">– Evaluated the reasonableness of significant assumptions used, including the estimate of proved and probable reserves, future production volumes, long-term commodity price forecasts, future production costs and future development capital expenditures by considering the current and past performance of the Company, consistency with industry benchmark pricing forecasts and consistency with evidence obtained in other areas of the audit as applicable.<li data-bbox="941 1774 1513 1824">– Professionals with specialized skill and knowledge were also used to assist in |



| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>impairment loss of \$77 million before tax. As at December 31, 2020, the Company determined that there were indicators of potential impairment reversal for the Alberta CGU, and the recoverable amount was estimated. Based on the results of the impairment test and continued economic uncertainty with the COVID-19 pandemic, no impairment or impairment reversals were recorded. There were no indicators of impairment for the BC CGU.</p> <p>Significant assumptions developed by management used to estimate the recoverable amount of the Company's CGUs include proved and probable reserve volumes, long-term commodity price forecasts, future production volumes, future production costs, future development capital expenditures and the discount rate.</p> <p>We determined that this is a key audit matter due to (i) the significant judgments made by management, including the use of management's experts, when developing the expected future cash flows to determine the recoverable amount and the proved and probable crude oil and natural gas reserves; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions; and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.</p> | <p>evaluating the reasonableness of the recoverable amounts of the Company's CGUs, including the discount rate used within the models.</p> <ul style="list-style-type: none">Recalculated the unit-of-production rates used to calculate D&D expense. |

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and



obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



The engagement partner on the audit resulting in this independent auditor's report is Ryan McKay.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 10, 2021

**KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020 AND DECEMBER 31, 2019**

| <i>(CA\$ thousands)</i> | [Notes] | December 31, 2020 | December 31, 2019 |
|---|---------|--------------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 31,570 | 8,365 |
| Accounts receivable and accrued sales | [14] | 20,954 | 44,972 |
| Prepaid expenses, deposits and other | [5] | 11,696 | 2,226 |
| Derivative financial instruments | [14] | 2,673 | - |
| Total current assets | | 66,893 | 55,563 |
| Investment in securities | [14] | - | 5,600 |
| Deferred income tax asset | [15] | 31,879 | - |
| Exploration and evaluation assets | [6] | 53,449 | 73,891 |
| Property, plant and equipment | [7] | 607,766 | 1,470,411 |
| Total assets | | 759,987 | 1,605,465 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 36,565 | 76,072 |
| Derivative financial instruments | [14] | 1,214 | 2,305 |
| Deferred premium on flow-through shares | | - | 1,346 |
| Decommissioning obligations | [10] | 2,169 | 2,094 |
| Financing liability | [11] | - | 771 |
| Lease liability | [12] | 684 | 1,055 |
| Total current liabilities | | 40,632 | 83,643 |
| Bank debt | [8] | - | 300,000 |
| Convertible debentures | [9] | - | 82,789 |
| Deferred income tax liability | [15] | - | 56,429 |
| Decommissioning obligations | [10] | 114,891 | 157,929 |
| Lease liability | [12] | 780 | 1,613 |
| Total liabilities | | 156,303 | 682,403 |
| SHAREHOLDERS' EQUITY | | | |
| Shareholders' capital | [13] | 1,141,517 | 1,137,121 |
| Reserve from common control transaction | | (57,668) | (57,668) |
| Contributed surplus | | 38,615 | 37,582 |
| Deficit | | (518,780) | (193,973) |
| Total shareholders' equity | | 603,684 | 923,062 |
| Total liabilities and shareholders' equity | | 759,987 | 1,605,465 |

Commitments [18]

The accompanying notes form an integral part of these consolidated 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)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019

| (CA\$ thousands, except per share amounts) | [Notes] | Year ended December 31 | |
|--|---------|------------------------|----------------|
| | | 2020 | 2019 |
| Revenue | | | |
| Petroleum and natural gas sales | [16] | 207,156 | 394,356 |
| Royalties | | (10,354) | (19,301) |
| | | 196,802 | 375,055 |
| Expenses | | | |
| Production | | 87,447 | 100,384 |
| Transportation | | 33,155 | 50,516 |
| Cost of purchases | | 8,303 | 16,740 |
| Financing | [17] | 18,039 | 22,773 |
| General and administrative | [19] | 7,322 | 8,889 |
| Share based compensation | [13] | 5,153 | 6,859 |
| Exploration and evaluation | [6] | 3,219 | 5,055 |
| Depletion, depreciation and impairment | [7] | 449,123 | 156,396 |
| | | 611,761 | 367,612 |
| Gain (loss) on derivative financial instruments | [14] | 13,680 | (5,814) |
| Foreign exchange gain (loss) | | (29) | (286) |
| Unrealized gain (loss) on investment | [14] | (5,600) | 600 |
| Gain (loss) on sale of assets | [5] | (4,751) | 6,902 |
| Loss on redemption of convertible debentures | [9] | (3,481) | - |
| Premium on flow-through shares | | 1,346 | - |
| Other income | | 1,080 | 562 |
| Other expenses | | (401) | - |
| Profit (loss) before taxes | | (413,115) | 9,407 |
| Deferred income tax recovery (expense) | [15] | 88,308 | (2,835) |
| Profit (loss) and comprehensive income (loss) | | (324,807) | 6,572 |
| Profit (loss) per common share | | | |
| Basic | [13] | (1.73) | 0.04 |
| Diluted | [13] | (1.73) | 0.04 |

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

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019

| <i>(CA\$ thousands)</i> | [Notes] | Shareholders' capital | | Reserve | Contributed surplus | Retained earnings (deficit) | Total shareholders' equity |
|-------------------------------------|---------|-------------------------|-----------------------|-----------------|---------------------|-----------------------------|----------------------------|
| | | Number of Shares (000s) | Amount (\$ thousands) | | | | |
| Balance at December 31, 2018 | | 184,003 | 1,119,232 | (57,668) | 32,556 | (200,324) | 893,796 |
| Initial adoption of IFRS 16 | | - | - | - | - | (221) | (221) |
| Profit and comprehensive income | | - | - | - | - | 6,572 | 6,572 |
| Common shares issued, net of costs: | | | | | | | |
| Private placements | [13] | 3,450 | 17,423 | - | - | - | 17,423 |
| Premium on flow-through shares | [13] | - | (1,346) | - | - | - | (1,346) |
| Share issue costs, net of tax | [13] | - | (34) | - | - | - | (34) |
| Exercise of stock options | [13] | 4 | 18 | - | (5) | - | 13 |
| Vesting of restricted share units | [13] | 329 | 1,828 | - | (1,828) | - | - |
| Share based compensation | [13] | - | - | - | 6,859 | - | 6,859 |
| Balance at December 31, 2019 | | 187,786 | 1,137,121 | (57,668) | 37,582 | (193,973) | 923,062 |
| Loss and comprehensive loss | | - | - | - | - | (324,807) | (324,807) |
| Share issue costs, net of tax | [13] | - | 2 | - | - | - | 2 |
| Exercise of stock options | [13] | 277 | 397 | - | (123) | - | 274 |
| Vesting of restricted share units | [13] | 517 | 3,997 | - | (3,997) | - | - |
| Share based compensation | [13] | - | - | - | 5,153 | - | 5,153 |
| Balance at December 31, 2020 | | 188,580 | 1,141,517 | (57,668) | 38,615 | (518,780) | 603,684 |

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

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

| (CA\$ thousands) | [Notes] | Year ended December 31 | |
|--|---------|------------------------|-----------|
| | | 2020 | 2019 |
| Operating activities | | | |
| Profit (loss) and comprehensive income (loss) | | (324,807) | 6,572 |
| Items not affecting cash: | | | |
| Accretion | [17] | 5,532 | 7,393 |
| Share based compensation | | 5,153 | 6,859 |
| Exploration and evaluation | | 3,219 | 5,055 |
| Depletion, depreciation and impairment | | 449,123 | 156,396 |
| Unrealized (gain) loss on derivative financial instruments | | (3,767) | 4,902 |
| Unrealized (gain) loss on investment in securities | | 5,600 | (600) |
| Premium on flow-through shares | | (1,346) | - |
| Loss on redemption of convertible debentures | | 3,481 | - |
| (Gain) loss on sale of assets | | 4,751 | (6,902) |
| Deferred income tax expense (recovery) | | (88,308) | 2,835 |
| Other | | 201 | 11 |
| Settlement of decommissioning obligations | [10] | (1,945) | (2,334) |
| Change in non-cash operating working capital | [20] | 2,392 | (17,699) |
| Cash provided by operating activities | | 59,279 | 162,488 |
| Financing activities | | | |
| Increase (decrease) in bank debt | [8] | (300,000) | 131,119 |
| Increase (decrease) in financing liability | [11] | 28,024 | 771 |
| Issue of common shares, net of costs | [13] | 3 | 17,377 |
| Proceeds on exercise of stock options | [13] | 274 | 13 |
| Redemption of convertible debentures | [9] | (89,910) | - |
| Repayment of lease liability principle | [12] | (1,070) | (1,114) |
| Cash provided by (used in) financing activities | | (362,679) | 148,166 |
| Investing activities | | | |
| Exploration and evaluation assets | | (2,853) | (9,001) |
| Property, plant and equipment | | (149,236) | (308,325) |
| Property acquisitions | [5] | (15) | (4,002) |
| Property dispositions | [5] | 506,061 | 5,704 |
| Investment in securities | [14] | - | (4,000) |
| Change in non-cash investing working capital | [20] | (27,351) | 10,891 |
| Cash provided by investing activities | | 326,606 | (308,733) |
| Impact of foreign currency on cash balances | | (1) | (11) |
| Net change in cash and cash equivalents | | 23,205 | 1,910 |
| Cash and cash equivalents, beginning of year | | 8,365 | 6,455 |
| Cash and cash equivalents, end of year | | 31,570 | 8,365 |

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

**KELT EXPLORATION LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

(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. The Company’s British Columbia assets are operated by Kelt Exploration (LNG) Ltd. (“Kelt LNG”), a wholly owned subsidiary of Kelt. The Company’s common shares are listed on the Toronto Stock Exchange (“TSX”) under the symbol “KEL”.

The head office of Kelt is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2.

2. COVID-19 and Significant Judgements and Estimates

On January 30, 2020 the World Health Organization (“WHO”) declared a Public Health Emergency of International Concern for a novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic with governments around the world imposing significant public health measures in order to reduce its spread. The COVID-19 pandemic resulted in an unprecedented global crude oil demand reduction in 2020 which in turn significantly lowered the average global benchmark crude oil price in 2020. Positive vaccine development along with temporary production curtailments from OPEC+ and non-OPEC nations, resulted in a recovery in crude oil prices in the second half of 2020. However, potential delays in the rollout of global vaccination programs and the emergence of new COVID-19 variants, remains a risk to the continued length of the pandemic and the extent of the impact on the global economy and crude oil prices.

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 3 of the consolidated annual financial statements.

These estimates require assumptions for future commodity prices, exchange rates, interest rates, future oil and natural gas production, and other economic issues that have a high degree of uncertainty. As the understanding of the longer-term impacts of COVID-19 on commodity, credit and equity markets develops in 2021, so will the assumptions for the valuation of Kelt’s exploration and evaluation assets, the valuation of its cash generating units, the timing around its decommissioning obligations, the fair value of its investments in securities, the Company’s calculated expected credit loss provision and the general collectability of its accounts receivables, and its liquidity.

3. BASIS OF PRESENTATION

The Company’s Board of Directors approved and authorized these consolidated annual financial statements on March 10, 2021 for issue on March 11, 2021.

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 consolidated annual 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 annual financial statements.

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 14 of these financial statements.

c) Significant judgments and estimates

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are discussed below.

Depletion, depreciation and reserves

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

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

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

Exploration and evaluation assets

Judgment is required to determine the level at which E&E is assessed for impairment. For Kelt, the carrying value of E&E assets is assessed for overall impairment at the operating segment level and on a specific identification basis prior to transferring E&E assets to PP&E. The decision to transfer assets from E&E to PP&E requires judgment as it is based on estimated proved reserves, which are used, in part, to determine a project’s technical feasibility and commercial viability. Refer to additional information regarding E&E assets in note 6 of these financial statements.

Determination of Cash Generating Units (“CGUs”)

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. As at December 31, 2020, the Company has one CGU for its assets located in the province of British Columbia and one CGU for its assets located in the province of Alberta. Refer to specific information regarding the Company’s CGUs in note 7 of the consolidated financial statements.

Impairment of non-financial assets

Significant judgment is required to assess the Company's non-financial assets, namely E&E and PP&E, for impairment or potential reversals of previously recorded impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale. In addition, judgment is required to assess whether a previously recognized impairment for an asset no longer exists or has decreased.

Significant assumptions used to estimate the recoverable amount of PP&E in the impairment test include proved and probable reserve volumes, long term commodity price forecasts, future production volumes, future production costs, future development capital expenditures and the discount rate.

Management calculates the recoverable amount of each CGU based on its FVLCD, using an after-tax discounted cash flow analysis derived from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and are subject to variability due to changes in forecasted commodity prices. In addition, the present value of forecast future cash flows is highly sensitive to the discount rate. Judgment is required to determine an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Refer to note 7 of the consolidated annual financial statements for a discussion of the specific estimates and assumptions applied in the impairment test performed at December 31, 2020.

Business combinations

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

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and infrastructure. In most instances, dismantling of assets and remediation occurs many years into the future. The value of the ultimate decommissioning obligation can fluctuate in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, changes to the risk-free discount rate and changes to inflation. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate. Key assumptions are disclosed in note 10 of these financial statements.

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

Deferred income taxes

The Company follows the liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, deferred income taxes are subject to measurement uncertainty. The provision for deferred income taxes also includes the following significant judgments of management:

- Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings, and are reduced to the extent it is no longer probable that the related tax benefit will be realized. The Company's non-capital losses expire in years 2039 to 2040.
- Intangible drilling and completion costs booked as Canadian development expenses ("CDE") may be deducted on a declining basis at 30%-45% per year. The allocation of costs to CDE may therefore impact the period in which Kelt may become taxable in the future. In addition, the designation of CDE expenditures may impact the Company's ability to satisfy its flow-through share obligations; and
- Recognition of unrecognized deferred income tax asset – per IAS 12, deferred income taxes are not initially recognized on transactions that are not business combinations. The Company did not initially recognize a deferred income tax asset of \$14.4 million that arose on the spin-out of certain assets from Celtic Exploration Ltd. ("Celtic") at Kelt's inception on February 26, 2013. The initially unrecognized deferred tax asset is now being amortized at a rate of 2.5% per quarter, which management believes is a reasonable estimate as it reflects the weighted average depletion rate of the properties at the time of the spin-out and is aligned with Kelt's corporate average depletion rate.

Share based compensation

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

For stock options, the Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in note 13 of these financial statements.

The fair value of restricted share units is estimated based on the volume weighted average trading price ("VWAP") on the TSX over three trading days immediately prior to the date of grant. Judgment is also required to estimate the rate of forfeiture, or number of restricted share units that will ultimately vest. The assumptions used by the Company are discussed in note 13 of these financial statements.

Flow-through shares

Flow through shares are accounted for under the residual method. Under this method, judgement is required to determine the fair value of ordinary shares. Typically, it is based on the share price at the time the parties agree to the transaction. In situations where flow-through shares are issued concurrent with an ordinary common share offering, the difference in subscription prices is used to value the premium. Otherwise, the Company uses the VWAP of KEL common shares for the five trading days immediately preceding the date of the binding agreement, to value the ordinary common shares.

Judgment is also required to determine when the Company has fulfilled its obligation to pass on the tax deduction to investors, at which time the premium on flow-through shares is recognized in income. The Company deems the obligation to have been fulfilled in the period that eligible expenditures are incurred, regardless of the period in which the tax deductions are legally renounced.

Leases

The Company applies judgement in reviewing each of its contractual arrangements to determine whether the lease falls within the scope of IFRS 16. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

The measurement of right-of-use ("ROU") assets and lease liabilities are subject to management's judgement of the applicable incremental borrowing rate when the rate implicit in a lease is not readily determinable. Applicable incremental borrowing rates are based on management's judgements of the economic environment, term, the underlying risk inherent to the asset (which may vary due to changes in the market conditions) and the expected lease term.

4. SIGNIFICANT AND NEW ACCOUNTING POLICIES

Joint interests

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

Foreign currency translation

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

Business combinations

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

Principles of consolidation

As at December 31, 2020, the Company has one wholly-owned subsidiary, Kelt LNG. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of Kelt and Kelt LNG. The financial statements of Kelt LNG are prepared for the same reporting period as Kelt, using uniform accounting policies. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation.

Assets held for sale

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

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

Financial instruments

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

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial

Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

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

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

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

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

ii) Loans and receivables

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

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

iii) Financial liabilities at amortized cost

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

iv) Derivative financial instruments

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

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 (level three fair value hierarchy estimates).

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

i) Recognition and measurement

Pre-license costs

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

Exploration and evaluation assets

All costs directly associated with the exploration and evaluation of petroleum and natural gas reserves are initially capitalized. Exploration and evaluation costs include unproved property acquisition costs such as undeveloped land and mineral leases, geological and geophysical costs, and costs associated with exploratory drilling and appraisals. Such costs are not subject to depletion or depreciation until they are reclassified from E&E to PP&E.

The costs are accumulated by exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be achieved when a sufficient amount of economically recoverable reserves relative to the estimated potential resources is estimated to exist, combined with available infrastructure to support commercial development. Prior to being transferred to PP&E, E&E costs are first tested for impairment. If proved/probable reserves have not been established through the completion of exploration and evaluation activities, and there are no future plans for activity in that exploration area, then the costs are determined to be impaired and the amounts are charged to the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss).

Property, plant and equipment

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

ii) Subsequent costs

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

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

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

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

iii) Depletion and depreciation

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

iv) 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.

Impairment of assets

Non-financial assets

The Company reviews the carrying value of its non-financial assets, including PP&E and E&E, on a quarterly basis to determine whether there is any indication of impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its FVLCD. E&E assets are assessed for overall impairment at the operating segment level and individual E&E assets are assessed for impairment prior to transferring to PP&E.

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

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

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

Financial assets

A financial asset measured at amortized cost is assessed at each reporting date using an expected credit loss ("ECL") model to determine whether it is impaired. The Company applies the simplified approach to providing for ECLs, as 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. ECLs are a probability-weighted estimate of all possible default events over the expected life of the financial asset which is based on credit quality since initial recognition.

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

Leases

The Company recognizes a ROU asset and corresponding liability on the balance sheet at the date when the leased asset is available for use. Interest expense on the lease liability is recognized over the lease term with an increase to the underlying lease liability. The ROU asset is depreciated over the shorter of the asset's useful life and lease term using the straight line method of depreciation.

ROU assets and lease liabilities are initially measured on a present value basis. Lease liabilities are measured as the net present value of lease payments, less any lease incentives. Lease payments may include fixed lease payments, variable lease payments based on an index or rate, amounts expected to be payable under residual value guarantees,

exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments related to early lease termination penalties. ROU assets are measured at cost comprising of the initial measurement of the lease liability, any lease payments made at, or before, the commencement date and any initial direct costs and asset restoration costs. The lease liability is discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily determinable.

The Company uses a single discount rate for a portfolio of leases with similar characteristics. Leases with lease terms under 12 months and leases where the underlying asset is of low value are not recognized on the balance sheet and are accounted as an expense as incurred.

Provisions and contingencies

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

Decommissioning obligations

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

Contingencies

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

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

Convertible debentures

The Debentures are a non-derivative financial instrument that creates a financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares of the Company. The liability component of the Debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially, net of deferred income taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the Debentures are reclassified to shareholders' capital on conversion to common shares.

Income taxes

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

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

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

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

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

Revenue recognition

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.

The Company applies a practical expedient and does not disclose quantitative or qualitative information on remaining performance obligations that have an original duration of one year or less. Kelt also applies a practical expedient that allows any incremental costs of obtaining contracts with customer to be recognized as an expense when incurred rather than being capitalized.

Kelt evaluates its arrangements with third 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 management determines that the Company does not maintain control of the product, then revenue is recognized net of fees, 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.

Financing expense

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

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

Share based compensation

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

The Company applies the fair value method of accounting for stock options, whereby each tranche in an award is

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

Flow-through shares

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

Per share amounts

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

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

Government grants

Government grants are recognized when there is a reasonable expectation that the conditions attached to the grants have been met, and that the grants will be received. Government grants primarily related to asset expenditures will be presented as a reduction to the capital cost of the asset the grant relates to. Government grants primarily related to income will be presented in the Consolidated Statement of Profit or Loss as a reduction to the expense line item the grant relates to, in the period in which the expenditures are incurred, or the related income is earned. Government grants primarily related to decommissioning obligations will be presented as a reduction to the carrying value of the obligation once the grant is received.

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

The following table summarizes the fair value of net assets acquired pursuant to property acquisitions during the year ended December 31, 2020 and the prior year ended December 31, 2019:

| Acquisitions | December 31, 2020 | December 31, 2019 |
|--|--------------------------|-------------------|
| Exploration and evaluation assets | 2,113 | 6,969 |
| Property, plant and equipment | 1,245 | 828 |
| Decommissioning obligations | (1,015) | (614) |
| Total assets (liabilities) acquired | 2,343 | 7,183 |
| Consideration | | |
| Cash consideration | (15) | (4,002) |
| Non-cash consideration | (2,328) | (3,181) |
| Total consideration | (2,343) | (7,183) |
| Dispositions | December 31, 2020 | December 31, 2019 |
| Exploration and evaluation assets | (20,321) | (2,900) |
| Property, plant and equipment | (565,651) | 28 |
| Decommissioning obligations | 42,917 | 889 |
| Financing and other liabilities | 29,915 | - |
| Carrying value of net (assets) liabilities disposed | (513,140) | (1,983) |
| Consideration | | |
| Cash consideration, after closing adjustments ⁽¹⁾ | 496,061 | 5,704 |
| Deposit held in trust | 10,000 | - |
| Non-cash consideration | 2,328 | 3,181 |
| Total consideration | 508,389 | 8,885 |
| Gain (loss) on sale of assets | (4,751) | 6,902 |

(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 interim statements of adjustments. The net gain or loss ultimately recognized by the Company upon determination of final closing adjustments may differ from these estimates.

On August 21, 2020, Kelt completed the disposition of its assets located at Inga, Fireweed and Stoddart in British Columbia ("Inga Assets"), for consideration of \$503.9 million after closing adjustments and transaction costs. The disposition (hereinafter referenced as the "Inga Assets Disposition") had an effective date of July 1, 2020. The Inga Assets had a carrying value of \$511.0 million, resulting in a loss on sale of \$7.1 million.

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback amount of \$15.0 million, with the outstanding balance held in trust and recorded as a deposit on the balance sheet. The holdback of \$15.0 million will be released over the course of 12 months from the transaction closing date of August 21, 2020 in three equal amounts, provided no claims are brought forth by the purchaser. Kelt has received the first installment of \$5.0 million, leaving \$10.0 million as a deposit held in trust at December 31, 2020.

6. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consist of the Company's undeveloped land, geological and geophysical assets, and exploratory drilling costs for projects in which the technical feasibility or commercial viability has yet to be determined. At the time sufficient information becomes available to determine whether the project is technically feasible or commercially viable, 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:

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Balance, beginning of year | 73,891 | 119,282 |
| Additions | 2,853 | 9,001 |
| Property acquisitions [note 5] | 2,113 | 6,969 |
| Property dispositions [note 5] | (20,321) | (2,900) |
| Transfers to property, plant and equipment | (1,868) | (53,406) |
| Exploration and evaluation expense | (3,219) | (5,055) |
| Balance, end of year | 53,449 | 73,891 |

The Company concluded that there are no indicators of potential impairment of its E&E assets at December 31, 2020.

7. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Net carrying value | | |
| Development and production (“D&P”) assets | 606,332 | 1,467,577 |
| Right-of-use (“ROU”) assets | 1,243 | 2,338 |
| Corporate assets | 191 | 496 |
| Total net carrying value of property, plant and equipment | 607,766 | 1,470,411 |

The following table reconciles movements of property, plant and equipment (“PP&E”) during the year:

| | D&P Assets | Corporate Assets | ROU Assets | Total PP&E |
|--|------------------|------------------|--------------|------------------|
| Property, plant and equipment, at cost | | | | |
| Balance at December 31, 2018 | 1,878,643 | 4,029 | - | 1,882,672 |
| Initial adoption of IFRS 16 | - | - | 2,666 | 2,666 |
| Additions | 307,554 | 771 | 953 | 309,278 |
| Property acquisitions [note 5] | 828 | - | - | 828 |
| Property dispositions [note 5] | 28 | - | (118) | (90) |
| Decommissioning costs | 14,971 | - | - | 14,971 |
| Transfers from E&E | 53,406 | - | - | 53,406 |
| Balance at December 31, 2019 | 2,255,430 | 4,800 | 3,501 | 2,263,731 |
| Additions | 148,798 | 438 | 884 | 150,120 |
| Property acquisitions [note 5] | 1,245 | - | - | 1,245 |
| Property dispositions [note 5] | (1,154,435) | - | (1,882) | (1,156,317) |
| Decommissioning costs | (1,008) | - | - | (1,008) |
| Transfers from E&E | 1,868 | - | - | 1,868 |
| Balance at December 31, 2020 | 1,251,898 | 5,238 | 2,503 | 1,259,639 |

| Accumulated depletion, depreciation and impairment | D&P Assets | Corporate Assets | ROU Assets | Total PP&E |
|--|------------------|------------------|--------------|------------------|
| Balance at December 31, 2018 | 633,465 | 3,518 | - | 636,983 |
| Depletion and depreciation expense | 154,388 | 786 | 1,222 | 156,396 |
| Dispositions | - | - | (59) | (59) |
| Balance at December 31, 2019 | 787,853 | 4,304 | 1,163 | 793,320 |
| Depletion and depreciation expense | 110,904 | 743 | 976 | 112,623 |
| Impairment | 336,500 | - | - | 336,500 |
| Dispositions [note 5] | (589,691) | - | (879) | (590,570) |
| Balance at December 31, 2020 | 645,566 | 5,047 | 1,260 | 651,873 |

Future capital costs required to develop proved reserves in the amount of \$536.7 million (December 31, 2019 – \$1,378.9 million) are included in the depletion calculation for development and production assets.

As at December 31, 2020 Kelt assessed its CGU's for indicators of impairment or impairment reversals as compared to its last impairment taken in the first quarter of 2020. Based on a recovery of commodity prices since March 31, 2020 and an increase in reserves for the year ended December 31, 2020 compared to December 31, 2019, the Company determined that there were potential indicators of impairment reversals for the Alberta CGU. For the BC CGU, Kelt determined that there were no potential indicators of impairment as at December 31, 2020.

Recoverable amounts for the Alberta CGU as of December 31, 2020 were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2020. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2020, including forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts were based on Sproule's December 31, 2020 evaluation of the Company's reserves to determine production profiles and volumes, operating costs, royalties, maintenance and future development capital expenditures. Future cash flow estimates were discounted using after-tax risk-adjusted discount rates. The after-tax discount rate applied in the impairment calculation as at December 31, 2020 was 16.0% and was based on the risks specific to the assets in the CGU. As at December 31, 2020, the net carrying amount of PP&E, less decommissioning obligations, for the Alberta CGU was \$446.8 million.

Based on the results of the impairment test as at December 31, 2020 and continued economic uncertainty with the COVID-19 pandemic, no impairment or impairment reversals were recorded for the Alberta CGU.

The recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions. As at December 31, 2020, holding all other variables in the FVLCD calculation constant:

- if the discount rate increased (decreased) by 1%, the FVLCD of the Alberta CGU would decrease by \$28.7 million and increase by \$31.3 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the FVLCD of the Alberta CGU would decrease by \$75.1 million and increase by \$75.1 million.

Forecast future prices used in the impairment evaluation as at December 31, 2020 reflect the benchmark prices set forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| As at December 31, 2020 | 2021 | 2022 | 2023 | 2024 | 2025⁽¹⁾ |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------------------|
| WTI Cushing Oklahoma (US\$/bbl) | 46.00 | 48.00 | 53.00 | 54.06 | 55.14 |
| Canadian Light Sweet 40 API (\$/bbl) | 54.55 | 57.14 | 63.64 | 64.91 | 66.21 |
| NYMEX Henry Hub (US\$/MMBtu) | 3.00 | 3.00 | 3.00 | 3.06 | 3.12 |
| AECO-C Spot (\$/MMBtu) | 2.86 | 2.78 | 2.69 | 2.75 | 2.80 |

(1) Prices escalate between 1.7%-2.5% in years 2026 to 2030

| As at December 31, 2019 | 2020 | 2021 | 2022 | 2023 | 2024⁽¹⁾ |
|--------------------------------------|-------------|-------------|-------------|-------------|---------------------------|
| WTI Cushing Oklahoma (US\$/bbl) | 60.25 | 63.11 | 66.02 | 67.64 | 69.16 |
| Canadian Light Sweet 40 API (\$/bbl) | 71.58 | 75.33 | 77.51 | 79.77 | 81.60 |
| NYMEX Henry Hub (US\$/MMBtu) | 2.57 | 2.79 | 2.99 | 3.15 | 3.22 |
| AECO-C Spot (\$/MMBtu) | 2.05 | 2.32 | 2.60 | 2.74 | 2.82 |
| Exchange rate (CA\$/US\$) | 1.3158 | 1.2987 | 1.2500 | 1.2500 | 1.2500 |

(1) Prices escalate at 2-3% after 2024

In the first quarter of 2020, as a result of the COVID-19 pandemic and a resulting collapse in global crude oil prices, an impairment test was conducted over all Kelt's CGUs. Based on the impairment test performed on the Alberta CGU, it was determined that the carrying value was in excess of the recoverable amount resulting in an impairment loss of \$77.1 million (before-tax). The impairment was primarily a result of a decrease in forecast crude oil prices as at March 31, 2020 compared to forecast prices as at December 31, 2019.

Recoverable amounts for each CGU as of March 31, 2020 were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2019, with the information rolled forward to March 31, 2020. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at March 31, 2020, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts were based on Sproule's December 31, 2019 evaluation of the Company's reserves to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future development capital was moved forward one year from the December 31, 2019 Sproule reserve evaluation due to deferrals of the Company's capital program as of March 31, 2020. The decrease in commodity prices from December 31, 2019 resulted in the removal of wells which were previously economic in the December 31, 2019 Sproule report. Future cash flow estimates were discounted using after-tax risk-adjusted discount rates. The after-tax discount rate applied in the impairment calculation as at March 31, 2020 was 12.0% and was based on the risks specific to the assets in the CGUs. As at March 31, 2020, the net carrying amount of PP&E, less decommissioning obligations, for the Alberta CGU was \$463.5 million subsequent to the impairment taken.

As at March 31, 2020, holding all other variables in the FVLCD calculation constant:

- if the discount rate increased (decreased) by 1%, the impairment of the Alberta CGU would decrease by \$28.5 million and increase by \$31.3 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the impairment of the Alberta CGU would decrease by \$51.4 million and increase by \$63.4 million.

Forecast future prices used in the impairment evaluation as at March 31, 2020 reflect the benchmark prices set-forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| As at March 31, 2020 | 2020 | 2021 | 2022 | 2023 | 2024⁽¹⁾ |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------------------|
| WTI Cushing Oklahoma (US\$/bbl) | 30.00 | 41.18 | 49.88 | 55.87 | 57.98 |
| Canadian Light Sweet 40 API (\$/bbl) | 29.72 | 47.20 | 59.66 | 67.00 | 69.92 |
| NYMEX Henry Hub (US\$/MMBtu) | 2.08 | 2.54 | 2.79 | 2.92 | 2.99 |
| AECO-C Spot (\$/MMBtu) | 1.78 | 2.22 | 2.42 | 2.54 | 2.61 |

(1) Prices escalate between 1.8%-3.1% in years 2025 to 2030

On August 21, 2020, the Company completed the disposition of the Inga Assets, which comprised the majority of the Company's BC CGU assets. In the second quarter of 2020, the BC CGU was impaired by \$259.4 million (before-tax) based on the transaction value contained in the Inga Asset Disposition purchase and sale agreement.

8. BANK DEBT

The Company has a \$20.0 million demand revolving credit facility ("the Credit Facility") with a Canadian chartered bank.

There are no borrowings under the Credit Facility at December 31, 2020 other than outstanding letters of credit of \$1.2 million. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount. The credit facility is subject to semi-annual redeterminations. 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 risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of \$100.0 million.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on the prime rate plus the applicable margin. The applicable margin ranges from 25 basis points to 400 basis points depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.25 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 1.25% to 5.25%, depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.25 times to greater than three times.

As at December 31, 2019, the Company had a revolving committed term credit facility with a syndicate of financial institutions, with an authorized amount of \$350.0 million, of which \$300.0 million was drawn against the term credit facility. The 2019 credit facility was subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year. Interest on the 2019 credit facility was payable monthly for borrowings through direct advances. Interest rates fluctuated based on a pricing grid which ranged from bank prime plus 0.5% to bank prime plus 2.5%, depending upon the Company's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of between less than 0.5 times to greater than three times. Under the Credit Facility, borrowings through the use of bankers' acceptances were also available. Stamping fees fluctuated based on a pricing grid and range from 1.5% to 3.5%, depending upon the Company's debt to EBITDA ratio of between less than 0.5 times to greater than three times.

The following table summarizes the changes in the value of the Credit Facility during the year ended December 31, 2020 and 2019:

| | December 31, 2020 | December 31, 2019 |
|--|--------------------------|-------------------|
| Balance, beginning of year | 300,000 | 168,881 |
| Net drawdown of bank debt | 15,000 | 130,000 |
| Repayment of bank debt | (315,000) | - |
| Decrease in unamortized financing fees | - | 95 |
| Increase in prepaid interest on banker acceptances | - | 1,024 |
| Bank debt movement | (300,000) | 131,119 |
| Balance, end of year | - | 300,000 |

9. CONVERTIBLE DEBENTURES

| | Number of convertible debentures | Liability component (\$ thousands) | Equity Component (\$ thousands) |
|--------------------------------------|----------------------------------|------------------------------------|---------------------------------|
| Balance at December 31, 2018 | 89,910 | 78,390 | 12,843 |
| Accretion of discount | - | 4,399 | - |
| Balance at December 31, 2019 | 89,910 | 82,789 | 12,843 |
| Accretion of discount | - | 3,640 | - |
| Loss on redemption | - | 3,481 | - |
| Redemption of convertible debentures | (89,910) | (89,910) | - |
| Balance at December 31, 2020 | - | - | 12,843 |

On October 3, 2020, Kelt redeemed the \$89.9 million outstanding principal amount of the convertible unsecured subordinated debentures. As a result of the redemption, the carrying value of the convertible debentures was increased to the redemption value of \$89.9 million, with a \$3.5 million loss being recorded in the third quarter of 2020.

In connection with the redemption of the Debentures, the Debentures were delisted from trading on the Toronto Stock Exchange effective October 5, 2020.

Accretion of the liability component and interest paid on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) (note 17).

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:

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Balance, beginning of year | 160,023 | 144,667 |
| Obligations incurred | 1,265 | 4,995 |
| Obligations acquired [note 5] | 1,015 | 614 |
| Obligations disposed [note 5] | (42,917) | (889) |
| Obligations settled | (1,945) | (2,334) |
| Changes in discount rate | 35,862 | 21,373 |
| Changes in inflation rate | (36,101) | (12,868) |
| Revisions to estimates | (2,034) | 1,471 |
| Accretion expense | 1,892 | 2,994 |
| Balance, end of year | 117,060 | 160,023 |
| Decommissioning obligations – current | 2,169 | 2,094 |
| Decommissioning obligations – non-current | 114,891 | 157,929 |
| Key assumptions | | |
| Risk free rate | 1.2% | 1.8% |
| Inflation rate | 1.2% | 1.8% |

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2020 the undiscounted amount of the estimated cash flows required to settle the obligation is \$117.1 million (December 31, 2019 – \$160.0 million) and is expected to be incurred over the next 50 years.

Based on an inflation rate of 1.2%, the undiscounted amount of the estimated future cash flows required to settle the obligation is \$174.8 million at December 31, 2020 (December 31, 2019 – \$291.2 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 17).

11. FINANCING LIABILITY

| | December 31, 2020 | December 31, 2019 |
|-----------------------------------|-------------------|-------------------|
| Balance, beginning of year | 771 | - |
| Additions | 28,727 | 810 |
| Payments | (1,903) | (143) |
| Interest expense | 1,200 | 104 |
| Liabilities disposed [note 5] | (28,795) | - |
| Balance, end of year | - | 771 |
| Financing liability – current | - | 771 |
| Financing liability – non-current | - | - |

As part of the Inga Assets Disposition, the purchaser acquired \$28.8 million of third party financing obligations related to a natural gas pipeline and a field compressor.

12. LEASE LIABILITY

| | December 31, 2020 | December 31, 2019 |
|-------------------------------|-------------------|-------------------|
| Balance, beginning of year | 2,668 | 2,888 |
| Additions | 884 | 953 |
| Liabilities disposed [note 5] | (1,018) | (59) |
| Interest expense | 148 | 165 |
| Lease payments | (1,218) | (1,279) |
| Balance, end of year | 1,464 | 2,668 |
| Lease liability – current | 684 | 1,055 |
| Lease liability – non-current | 780 | 1,613 |

The Company has lease liabilities commercial office space and vehicle leases. The weighted average discount rate for new leases entered in the period ended December 31, 2020 was 4.8% (December 31, 2019 – 5.9%). Payments under the Company's short-term leases were \$4.0 million for the year ended December 31, 2020 (December 31, 2019 – \$10.5 million), which primarily related to short term drilling rig leases.

As part of the Inga Assets Disposition, the purchaser acquired \$0.9 million of lease liabilities related to office space, field equipment, vehicle leases and a surface lease.

13. 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 December 31, 2020 (December 31, 2019 – nil).

| | Number of Shares (000s) | Amount (\$ thousands) |
|--|----------------------------|--------------------------|
| Balance at December 31, 2018 | 184,003 | 1,119,232 |
| Issued for cash through common share offerings | 3,450 | 17,423 |
| Deferred premium on flow-through shares | - | (1,346) |
| Issued for cash on exercise of stock options | 4 | 13 |
| Transfer from contributed surplus on exercise of stock options | - | 5 |
| Released upon vesting of restricted share units | 329 | 1,828 |
| Share issue costs, net of deferred taxes (\$12) | - | (34) |
| Balance at December 31, 2019 | 187,786 | 1,137,121 |
| Issued for cash on exercise of stock options | 277 | 274 |
| Transfer from contributed surplus on exercise of stock options | - | 123 |
| Released upon vesting of restricted share units | 517 | 3,997 |
| Share issue costs, net of deferred taxes | - | 2 |
| Balance at December 31, 2020 | 188,580 | 1,141,517 |

Flow-through common shares

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities (“FTS”) to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of December 31, 2020, all eligible expenditures for the Company’s flow through shares issued in 2019 have been incurred, with no additional FTS being issued in 2020.

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 which 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, 2018 | 9,803 | 6.20 |
| Granted | 2,305 | 2.92 |
| Exercised ⁽¹⁾ | (4) | 3.25 |
| Forfeited | (227) | 5.66 |
| Expired | (1,862) | 9.96 |
| Balance at December 31, 2019 | 10,015 | 4.76 |
| Granted | 2,725 | 1.03 |
| Exercised ⁽¹⁾ | (277) | 0.99 |
| Forfeited | (1,267) | 4.44 |
| Expired | (1,229) | 4.77 |
| Balance at December 31, 2020 | 9,967 | 3.88 |

(1) The average share price on the date stock options were exercised during the year ended December 31, 2020 was \$1.64 per common share (\$5.27 per common share on average during the year ended December 31, 2019).

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

| | Year ended December 31 | |
|--|------------------------|-------|
| | 2020 | 2019 |
| Risk free interest rate | 0.52% | 1.3% |
| Expected life (years) | 3.5 | 3.5 |
| Expected volatility ⁽¹⁾ | 67.7% | 48.7% |
| Expected dividend yield | 0.0% | 0.0% |
| Expected forfeiture rate | 4.4% | 4.5% |
| Fair value of options granted during the year (\$/share) | 0.48 | 1.06 |

(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 December 31, 2020:

| 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 \$3.50 | 4,132 | 4.0 | 1.76 | 596 | 2.76 |
| \$3.51 to \$6.50 | 5,245 | 1.7 | 5.14 | 4,516 | 5.20 |
| \$6.51 to \$9.50 | 590 | 2.0 | 7.62 | 476 | 7.54 |
| Total | 9,967 | 2.7 | 3.88 | 5,588 | 5.14 |

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, 2018 | 1,097 |
| Granted | 144 |
| Released upon vesting | (329) |
| Forfeited | (47) |
| Balance at December 31, 2019 | 865 |
| Granted | 10 |
| Released upon vesting | (517) |
| Forfeited | (12) |
| Balance at December 31, 2020 | 346 |

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

| | Year ended December 31 | |
|---------------------------------|------------------------|-------|
| | 2020 | 2019 |
| Stock options | 2,945 | 4,152 |
| Restricted share units | 2,208 | 2,707 |
| Share base compensation expense | 5,153 | 6,859 |

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:

| <i>(000s of common shares)</i> | Year ended December 31 | |
|---|------------------------|---------|
| | 2020 | 2019 |
| Weighted average common shares outstanding, basic | 188,093 | 184,302 |
| Effect of dilution from stock options and RSUs | - | 644 |
| Weighted average common shares outstanding, diluted | 188,093 | 184,946 |

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. For the year ended December 31, 2020, the effect of stock options and RSUs were anti-dilutive therefore excluded in calculating the diluted weighted average common shares outstanding.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, investment in securities, accounts receivable and accrued sales, deposits, accounts payable and accrued liabilities, derivative financial instruments, convertible debentures, financing liabilities and bank debt (when an outstanding balance is drawn on the Credit Facility). 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 in order to manage market risks. The objective of 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 December 31, 2020, the following commodity price risk management contracts are outstanding:

| Contract Type ⁽¹⁾⁽²⁾ | Notional Volume | Contract Price | Remaining Term |
|---|-----------------|-----------------|-----------------|
| Crude oil derivative contracts | | | |
| WTI fixed price swap | 1,500 bbl/d | CAD\$56.17/bbl | Jan – Mar 2021 |
| WTI fixed price swap | 1,500 bbl/d | CAD\$58.52/bbl | Apr – June 2021 |
| Natural gas derivative contracts | | | |
| NYMEX fixed price swap | 10,000 MMBtu/d | CAD\$4.00/MMBtu | Jan – Oct 2021 |
| AECO 5A fixed price swap | 5,000 GJ/d | CAD\$2.70/GJ | Jan – Oct 2021 |

(1) West Texas Intermediate ("WTI")

(2) NYMEX Henry Hub ("NYMEX")

Subsequent to December 31, 2020, the Company entered into the following commodity price risk management contracts:

| Contract Type ⁽¹⁾⁽²⁾ | Notional Volume | Contract Price | Remaining Term |
|---------------------------------------|-----------------|------------------------|-----------------|
| Crude oil derivative contracts | | | |
| WTI fixed price swap | 1,500 bbl/d | CAD\$70.00/bbl | Jul – Sept 2021 |
| WTI-MSW basis swap | 1,500 bbl/d | WTI less USD\$4.55/bbl | Apr – Sept 2021 |

(1) West Texas Intermediate (“WTI”)

(2) Mixed Sweet Blend (“MSW”)

Interest rate risk

The Company has historically been 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. At the end of the third quarter, the Company has no amounts drawn on its Credit Facility, therefore there would be no effect on the Company's interest rate risk if the market interest rate increased or decreased.

During the third quarter of 2020, the Company paid \$0.3 million to unwind all outstanding interest rate swaps. As at December 31, 2020, 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 and from exposure from certain U.S. dollar denominated natural gas marketing arrangements.

During the third quarter of 2020, the Company received \$0.4 million for unwinding its foreign exchange risk management contract. As at December 31, 2020, there are no foreign exchange risk management contracts outstanding.

Gains and losses on risk management contracts

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

| | Year ended December 31 | |
|---|------------------------|---------|
| | 2020 | 2019 |
| Realized gain (loss) | 9,913 | (912) |
| Unrealized gain (loss) | 3,767 | (4,902) |
| Gain (loss) on derivative financial instruments | 13,680 | (5,814) |

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 sales, 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 December 31, 2020:

| Balance as at December 31, 2020 | Carrying Value ("CV") | | | Fair Value | | |
|---------------------------------|-----------------------|------------------------|--------|------------|---------|---------|
| | Gross | Netting ⁽¹⁾ | Net CV | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | | |
| Derivative financial instrument | 2,673 | - | 2,673 | - | 2,673 | - |
| Financial liabilities | | | | | | |
| Derivative financial instrument | 1,214 | - | 1,214 | - | 1,214 | - |

| Balance as at December 31, 2019 | Carrying Value ("CV") | | | Fair Value | | |
|---------------------------------------|-----------------------|------------------------|--------|------------|---------|---------|
| | Gross | Netting ⁽¹⁾ | Net CV | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | | |
| Investment in securities | 5,600 | - | 5,600 | - | - | 5,600 |
| Financial liabilities | | | | | | |
| Derivative financial instrument | 2,305 | - | 2,305 | - | 2,305 | - |
| Convertible debentures ⁽²⁾ | 82,789 | - | 82,789 | 102,497 | - | - |

(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.

(2) The fair value of the convertible debentures of \$102.5 million as at December 31, 2019, is based on the closing market price of \$114.00 per Debenture, being the price at which the Debentures last traded in the quarter, and represents the market value of the entire instrument.

The estimated fair value of the Company's investments in securities is based on equity issuances and other indications of value (level three fair value hierarchy inputs). During the third quarter of 2020, the Company wrote off its investment in a private corporation due to reduced economics for the construction of a proposed downstream facility. The impairment resulted in an unrealized loss on Kelt's investment in securities of \$5.6 million.

Credit risk

As at December 31, 2020, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, 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 sales | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Joint venture partners | 3,510 | 3,067 |
| Oil and gas marketers | 16,650 | 37,548 |
| GST input tax credits | 1,011 | 4,802 |
| Interest receivable | 104 | - |
| Risk management contracts | 86 | 189 |
| Other | 346 | 113 |
| ECL provision | (753) | (747) |
| Accounts receivable and accrued sales | 20,954 | 44,972 |

During the year ended December 31, 2020, sales to four oil and gas marketers each individually represented more

than 10% of total sales. Sales to these marketers account for approximately 31%, 24%, 15% and 12% of total sales, respectively. During the comparative period ended December 31, 2019, sales to three oil and gas marketers accounted for approximately 38%, 20% and 19% of total sales, respectively. Kelt has mitigated some of its credit risk through parental guarantees (with terms up to five years) and through the majority of its sales to oil and gas marketers which have been rated investment-grade by an independent ratings agency.

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. As of December 31, 2020, the collection risk on outstanding accounts receivable balances is considered low as only 5.0% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2019 – 5.1%).

Liquidity risk

The 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 as at December 31, 2020 include accounts payable, derivative financial instruments and lease liabilities. The Company manages liquidity risk with its budgeting process which sets out expected debt levels, capital expenditures and funds flow from operations. In addition, risk management contracts such as derivative financial instruments may be used to protect future revenue. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements and expected revenues.

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, the Company targets to maintain sufficient unused bank credit lines or other liquidity to satisfy such working capital deficiencies. Kelt plans to finance its 2021 capital program using cash on hand as of December 31, 2020 and funds from operations.

In 2020 Kelt sold its Inga Assets for cash proceeds of \$510.0 million before closing adjustments. Proceeds of the disposition were used to repay the Company's outstanding bank debt, and outstanding convertible debentures resulting in a working capital surplus of \$26.3 million at December 31, 2020, and nil amounts drawn on the Company's credit facility. The working capital surplus will allow Kelt to enter 2021 in a strong financial position.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2020:

| | Within 1 Year | 1 to 5 Years | More than 5 Years | Total |
|--|---------------|--------------|-------------------|---------------|
| Accounts payable and accrued liabilities | 36,565 | - | - | 36,565 |
| Derivative financial instruments | 1,214 | - | - | 1,214 |
| Lease liability | 684 | 780 | - | 1,464 |
| Total | 38,463 | 780 | - | 39,243 |

Capital management

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

Following the repayment of the bank debt, disposition of the financing obligations and redemption of the convertible debentures, Kelt is without any long-term bank or financial obligations resulting in a positive working capital surplus of \$26.3 million as at December 31, 2020.

At December 31, 2020, the Company has a \$20.0 million demand credit facility for the purpose of short-term working

capital management, hedging and letters of credit. Based on current commodity prices and the uncertain impacts of COVID-19, Kelt does not anticipate using bank debt to fund capital expenditures until market conditions improve.

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Bank debt | - | 300,000 |
| Working capital deficiency (surplus) | (26,261) | 28,080 |
| Net bank debt ⁽¹⁾ | (26,261) | 328,080 |
| Annualized quarterly adjusted funds from operations ⁽²⁾⁽³⁾ | 43,032 | 186,620 |
| Net bank debt to annualized quarterly adjusted funds from operations ratio ⁽²⁾ | (0.6) | 1.8 |

(1) "Net bank 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 and settlement of decommissioning obligations.

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

The Company monitors its capital structure and short-term financing requirements using a net bank debt to annualized quarterly adjusted funds from operations ratio, which is a non-GAAP financial measure. Kelt targets a net bank debt to annualized quarterly adjusted funds from operations ratio of less than 2.0 times. The Company may adjust its future capital structure according to market conditions in order to maintain flexibility to achieve its objectives. To adjust its capital structure, the Company may increase or decrease capital expenditures including acquisitions and dispositions, issue new shares, issue new debt or repay existing debt.

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at December 31, 2020, the Company is in compliance with all covenants as no bank debt has been drawn against its Credit Facility. The Company is not subject to any other externally imposed capital requirements.

15. INCOME TAXES

Kelt was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of December 31, 2020 are estimated to be approximately \$717.6 million (December 31, 2019 – \$1,184.7 million).

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

| | Year ended December 31 | |
|--|------------------------|---------|
| | 2020 | 2019 |
| Profit (Loss) before income taxes | (413,115) | 9,407 |
| Canadian statutory tax rate | 26.0% | 26.8% |
| Expected income tax expense (recovery) | (107,457) | 2,522 |
| Increase (decrease) resulting from: | | |
| Non-deductible expenses ⁽¹⁾ | 1,243 | 1,833 |
| Amortization of common control reserve | (1,384) | (1,528) |
| Qualifying expenditures on flow-through shares | 4,704 | - |
| Premium on flow-through shares | (323) | - |
| Permanent differences | 3,295 | - |
| Unrecognized deferred tax assets | 10,505 | - |
| Change in tax rates | 1,071 | (113) |
| Other | 38 | 121 |
| Deferred income tax expense (recovery) | (88,308) | 2,835 |

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

The Canadian statutory tax rate per the rate reconciliation above represents the weighted average combined federal

and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the annual average provincial tax rate in Alberta and British Columbia is 9.0% and 12.0% respectively.

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

| | Balance at December 31, 2019 | Recognized in profit and CI ⁽¹⁾ | Recognized in balance sheet | Balance at December 31, 2020 |
|---|---------------------------------|---|--------------------------------|---------------------------------|
| Deferred income tax asset (liability) | | | | |
| Derivative financial instruments | 611 | (947) | - | (336) |
| PP&E and E&E | (202,485) | 143,103 | - | (59,382) |
| Decommissioning obligations | 38,688 | (11,511) | - | 27,177 |
| Lease liability | 660 | (374) | - | 286 |
| Convertible debentures | (1,538) | 1,538 | - | - |
| Share and debt issue costs | 271 | (137) | - | 134 |
| Reserve from common control transaction | (1,734) | 1,404 | - | (330) |
| Non-capital losses ⁽²⁾ | 109,098 | (44,768) | - | 64,330 |
| Net deferred tax asset (liability) | (56,429) | 88,308 | - | 31,879 |

| | Balance at December 31, 2018 | Recognized in profit and CI ⁽¹⁾ | Recognized in balance sheet | Balance at December 31, 2019 |
|---|---------------------------------|---|--------------------------------|---------------------------------|
| Deferred income tax asset (liability) | | | | |
| Derivative financial instruments | (701) | 1,312 | - | 611 |
| PP&E and E&E | (178,034) | (24,451) | - | (202,485) |
| Decommissioning obligations | 39,061 | (373) | - | 38,688 |
| Lease liability | - | 660 | - | 660 |
| Convertible debentures | (2,726) | 1,188 | - | (1,538) |
| Share and debt issue costs | 633 | (374) | 12 | 271 |
| Reserve from common control transaction | (3,501) | 1,767 | - | (1,734) |
| Non-capital losses ⁽²⁾ | 91,662 | 17,436 | - | 109,098 |
| Net deferred tax asset (liability) | (53,606) | (2,835) | 12 | (56,429) |

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

(2) The Company's non-capital losses expire in years 2039 to 2040.

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.

16. REVENUE

Kelt sells its oil, natural gas, and NGLs production under variable price contracts. The transaction price 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.

Where Kelt is the principal to transportation arrangements, gas production sales includes revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the year end December 31, 2020, transportation costs incurred in relation to these contracts was \$16.7 million (December 31,

2019 – \$22.5 million).

Kelt has a number of variable priced long-term commodity sales contracts where the volumes under these contracts for future periods have not yet been fulfilled resulting in unsatisfied performance obligations as at the reporting date. These contracts have varying durations, with the longest individual commodity sales contract ending in October 2023.

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

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Oil production | 104,560 | 226,327 |
| Oil treating and other | 756 | 548 |
| NGLs production | 22,904 | 33,796 |
| Gas production | 70,807 | 108,990 |
| Gas processing and other | 1,125 | 1,419 |
| Marketing revenue | 7,004 | 23,276 |
| Total petroleum and natural gas sales | 207,156 | 394,356 |

Included in accounts receivable at December 31, 2020 is \$16.7 million (December 31, 2019 - \$37.5 million) of accrued oil and gas sales related to December 2020 production.

17. FINANCING EXPENSES

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

| | Year ended December 31 | |
|--|------------------------|---------------|
| | 2020 | 2019 |
| Interest on bank debt [note 8] | 7,047 | 9,833 |
| Bank fees | 713 | 782 |
| Interest on convertible debentures [note 9] | 3,399 | 4,496 |
| Interest on finance lease [note 12] | 148 | 165 |
| Interest on finance liability [note 11] | 1,200 | 104 |
| Accretion of convertible debentures [note 9] | 3,640 | 4,399 |
| Accretion of decommissioning obligations [note 10] | 1,892 | 2,994 |
| Financing expense | 18,039 | 22,773 |

18. COMMITMENTS

As of December 31, 2020, the Company is committed to future payments under the following agreements:

| | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Firm processing commitments | 11,549 | 11,557 | 11,566 | 11,607 | 9,455 | 34,776 |
| Firm transportation commitments ⁽¹⁾ | 20,670 | 19,247 | 14,922 | 13,451 | 12,250 | 22,101 |
| Total commitments | 32,219 | 30,804 | 26,488 | 25,058 | 21,705 | 56,877 |

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on December 31, 2020 of CA\$/US\$1.2732.

Following the closing of the sale of the Inga Assets, approximately \$278.1 million of Kelt's processing and transportation commitments were acquired by the purchaser including a take-or-pay firm processing commitment for 75 MMcf/d raw gas under a 10-year term and a firm transportation commitment on the North Montney Mainline under a 20-year term.

19. GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES

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

| | Year ended December 31 | |
|--|------------------------|---------|
| | 2020 | 2019 |
| Salaries and benefits ^{(1) (2)} | 7,154 | 10,340 |
| Other G&A expenses | 4,586 | 4,949 |
| G&A expenses before recoveries | 11,740 | 15,289 |
| Overhead recoveries | (4,418) | (6,400) |
| G&A expense | 7,322 | 8,889 |

(1) Refer to additional information regarding salaries and benefits paid to key management personnel in note 21 of these financial statements.

(2) 2020 salaries and benefits include \$1.5 million received as part of the Canada Emergency Wage Subsidy program.

20. SUPPLEMENTAL CASH FLOW INFORMATION

| | Year ended December 31 | |
|--|------------------------|----------|
| | 2020 | 2019 |
| Changes in non-cash working capital | | |
| Accounts receivable and accrued sales | 24,018 | 1,208 |
| Prepaid expenses and deposits | (9,470) | (558) |
| Accounts payable and accrued liabilities | (39,507) | (7,458) |
| Change in non-cash working capital | (24,959) | (6,808) |
| Relating to: | | |
| Operating activities | 2,392 | (17,699) |
| Investing activities | (27,351) | 10,891 |
| Change in non-cash working capital | (24,959) | (6,808) |

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

| | Year ended December 31 | |
|--|------------------------|-------|
| | 2020 | 2019 |
| Cash outlays in respect of interest and taxes | | |
| Interest and standby fees on bank debt | 7,352 | 9,180 |
| Interest on convertible debentures ⁽¹⁾ | 3,744 | 4,496 |
| Taxes ⁽²⁾ | - | - |

(1) Interest on the Debentures was paid on May 31st and early on October 3rd upon redemption of convertible debentures (note 9).

(2) Kelt was not required to pay cash income taxes as the Company had sufficient income tax deductions available to shelter taxable income (note 15).

21. RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where a director of Kelt is a partner, and Kelt has engaged the services of a registrar and transfer agent where an officer of Kelt is a director of the company. During the year ended December 31, 2020, the Company incurred \$0.8 million (2019 – \$0.5 million) in disbursements to related parties.

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

| | Year ended December 31 | |
|--------------------------------------|------------------------|--------------|
| | 2020 | 2019 |
| Salaries, bonuses and other benefits | 1,831 | 2,260 |
| Share based compensation | 594 | 1,230 |
| Total compensation | 2,425 | 3,490 |

During the year ended December 31, 2020, key management personnel were granted 1,209,000 stock options with an exercise price of \$0.99 per share. During the year ended December 31, 2019, key management personnel were granted 50,000 RSUs and 930,000 stock options with an exercise price of \$2.84 per share.

ABBREVIATIONS

| | |
|-----------|---|
| bbls | barrels |
| mmbbls | 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 |
| AECO | Alberta Energy Company "C" Meter Station of the NOVA Pipeline System |
| NIT | NOVA Inventory Transfer ("AB-NIT"), being the reference price at the AECO Hub |
| WTI | West Texas Intermediate |
| MSW | Mixed Sweet Blend Edmonton |
| NYMEX | New York Mercantile Exchange |
| Station 2 | Spectra Energy receipt location |
| NGX | Natural Gas Exchange Inc. (Canada) |
| API | American Petroleum Institute |
| MD&A | Management's Discussion and Analysis |
| Q1 | First quarter ended March 31 st |
| Q2 | Second quarter ended June 30 th |
| Q3 | Third quarter ended September 30 th |
| Q4 | Fourth quarter ended December 31 st |
| YTD | Year to date |
| BT | Before income taxes |
| AT | After income taxes |
| 1P | Proved reserves |
| 2P | Proved plus probable reserves |

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, 7}

President, Valhalla Ventures Inc.

Geri L. Greenall ^{2, 3, 6}

Chief Financial Officer, Spartan Delta Corp.

William C. Guinan ^{1, 5}

Independent Businessman

Michael R. Shea ^{3, 4, 6}

Independent Businessman

Neil G. Sinclair ^{2, 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

7 lead director

HEAD OFFICE

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REGISTRAR AND TRANSFER AGENT

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LEGAL COUNSEL

Borden Ladner Gervais LLP
Centennial Place, East Tower,
Suite 1900, 520 Fourth Avenue S.W.
Calgary, Alberta T2P 0R3

OFFICERS

David J. Wilson

President & Chief Executive Officer

Sadiq H. Lalani

Vice President & Chief Financial Officer

Douglas J. Errico

Senior Vice President, Land and Corporate
Development

Alan G. Franks

Vice President, Production

Bruce D. Gigg

Vice President, Engineering

David A. Gillis

Vice President, Finance

Douglas O. MacArthur

Vice President, Operations

Patrick W.G. Miles

Vice President, Exploration

Carol Van Brunschot

Vice President, Marketing

Louise K. Lee

Corporate Secretary

AUDITORS

PricewaterhouseCoopers LLP
Suite 3100, 111 Fifth Avenue S.W.
Calgary, Alberta T2P 5L3

EVALUATION ENGINEERS

Sroule Associates Limited
Suite 900, 140 Fourth Avenue S.W.
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STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common shares "KEL"



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