ANNUAL REPORT

AS AT AND FOR THE YEAR ENDED

DECEMBER 31, 2021

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
FINANCIAL						
Petroleum and natural gas sales	**120,523**	41,961	187	**316,763**	207,156	53
Cash provided by operating activities	**52,056**	3,288	1483	**159,714**	59,279	169
Adjusted funds from operations [(1)]	**68,155**	10,758	534	**161,394**	58,832	174
Basic ($/ common share) [(1)]	**0.36**	0.06	500	**0.85**	0.31	174
Diluted ($/ common share) [(1)]	**0.35**	0.06	483	**0.85**	0.31	174
Net income (loss) and comprehensive income (loss)	**52,996**	26,018	104	**114,256**	(324,807)	135
Basic ($/ common share)	**0.28**	0.14	100	**0.61**	(1.73)	135
Diluted ($/ common share)	**0.28**	0.14	100	**0.60**	(1.73)	135
Capital expenditures, net of A&D [(1)]	**67,118**	24,470	174	**213,511**	(353,957)	160
Total assets	**913,497**	759,987	20	**913,497**	759,987	20
Bank debt	**1,150**	-	-	**1,150**	-	-
Net debt (surplus) [(1)]	**28,220**	(27,655)	202	**28,220**	(27,655)	202
Shareholders' equity	**722,724**	603,684	20	**722,724**	603,684	20
Weighted average shares outstanding (000s)						
Basic	**189,134**	188,551	-	**188,800**	188,093	-
Diluted	**192,676**	189,270	2	**190,807**	188,093	1
OPERATIONS						
Average daily production						
Oil (bbls/d) [(2)]	**6,624**	4,057	63	**4,692**	7,057	-34
NGLs (bbls/d)	**3,255**	2,722	20	**3,154**	4,161	-24
Gas (mcf/d)	**95,616**	58,179	64	**78,846**	82,646	-5
Combined (BOE/d)	**25,815**	16,476	57	**20,987**	24,992	-16
Production per million common shares (BOE/d) [(1)]	**136**	87	56	**111**	133	-17
Net realized prices, before financial instruments[(1)]						
Oil ($/bbl) [(2)]	**91.43**	50.30	82	**81.30**	40.80	99
NGLs ($/bbl)	**50.03**	22.42	123	**40.03**	15.04	166
Gas ($/mcf)	**5.46**	2.91	88	**4.35**	2.33	87
Operating netbacks ($/BOE) [(1)]						
Petroleum and natural gas sales	**50.75**	27.69	83	**41.35**	22.65	83
Cost of purchases	**(0.74)**	(1.28)	-42	**(0.83)**	(0.92)	-10
Combined net realized price, before financial instruments[(1)]	**50.01**	26.41	89	**40.52**	21.73	86
Realized gain (loss) on financial instruments	**(2.62)**	(2.51)	4	**(2.14)**	0.99	-316
Combined net realized price, after financial instruments [(1)]	**47.39**	23.90	98	**38.38**	22.72	69
Royalties	**(4.17)**	(2.13)	96	**(3.58)**	(1.13)	217
Production expense	**(9.91)**	(9.54)	4	**(9.13)**	(9.56)	-4
Transportation expense	**(3.31)**	(3.83)	-14	**(3.38)**	(3.62)	-7
Operating netback [(1)]	**30.00**	8.40	257	**22.29**	8.41	165
Land holdings						
Gross acres	**722,281**	800,270	-3	**722,281**	800,270	-3
Net acres	**558,763**	579,764	-4	**558,763**	579,764	-4
Reserves – proved plus probable						
Crude oil and liquids (mbbls) [(2)]	**104,824**	75,619	39	**104,824**	75,619	39
Gas (mmcf)	**895,948**	618,975	45	**895,948**	618,975	45
Combined (mBOE)	**254,149**	178,782	42	**254,149**	178,782	42

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

(2) “Liquids” include field condensate and NGLs; “Oil” includes crude oil and field condensate combined.

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, 2021.

Average production for the three months ended December 31, 2021 was 25,815 BOE per day, up 32% compared to average production of 19,621 BOE per day during the third quarter of 2021. 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. Of the 24,992 BOE per day average production for 2020, 9,052 BOE per day related to the Inga Assets. Average production for 2021 was 20,987 BOE per day, an increase of 32% from pro-forma (excluding Inga Assets) average production of 15,940 BOE per day in 2020. Production for the three months ended December 31, 2021 was weighted 38% to oil and NGLs and 62% to gas.

With political turmoil around the globe, supply chain disruptions stemming from the COVID-19 pandemic, a broad swathe of commodity prices are on the rise globally including crude oil and other fuels.

Kelt's petroleum and natural gas sales during the fourth quarter of 2021 increased 187% to $120.5 million, up from $42.0 million in the same period of the previous year. Oil and gas sales for the year were $316.8 million, up 53% from $207.2 million in 2020. Kelt's realized average oil price during the fourth quarter of 2021 was $91.43 per barrel, up 82% from $50.30 per barrel in the fourth quarter of 2020. The Company's realized average NGLs price during the fourth quarter of 2021 was $50.03 per barrel, up 123% from $22.42 per barrel in the fourth quarter of 2020. Kelt's realized average gas price for the fourth quarter of 2021 was $5.46 per MCF, up 88% from $2.91 per MCF in the fourth quarter of 2020.

For the three months ended December 31, 2021, adjusted funds from operations was $68.2 million ($0.35 per share, diluted), compared to $10.8 million ($0.06 per share, diluted) in the fourth quarter of 2020. Year over year, adjusted funds from operations increased 174% to $161.4 million ($0.85 per share, diluted) from $58.8 million ($0.31 per share, diluted) in 2020. During 2021, Kelt recorded net income of $114.3 million ($0.60 per share, diluted) compared to a net loss of $324.8 million ($1.73 per share, diluted) in the previous year.

At December 31, 2021, Kelt had net debt of $28.2 million compared to a net surplus of $27.7 million at December 31, 2020. With the sale of the Inga Assets in 2020 and an environment of rising commodity prices, Kelt continues to maintain a strong financial position.

Capital expenditures, net of A&D incurred during the three months ended December 31, 2021 were $67.1 million, up 174% compared to capital expenditures, net of A&D of $24.5 million during the fourth quarter of 2020. During the fourth quarter of 2021, the Company spent $28.8 million on drill and complete operations and $37.6 million on well equipment, facilities and pipelines.

As at December 31, 2021, Kelt's net working interest land holdings were 558,763 acres (873 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, 2021, Kelt's net Montney land holdings were 356,719 acres (557 sections). In addition, Kelt holds 73,347 net acres (114.6 net sections) in the Triassic Charlie Lake play in Alberta.

At Oak/Flatrock, Kelt commenced operations at its newly constructed Oak 6-35 gas compression and oil battery facility as outlined in a comprehensive operations update previously reported in the Company's news release on February 17, 2022. The seven Upper Montney wells that were put on production during the month of November 2021 continue to meet and in most cases exceed expectations.

At Pouce Coupe, Kelt drilled, completed, and put on production four Montney wells in the oil-prone area of the Company's land base during 2021. At Pouce Coupe West, Kelt drilled two Montney wells during the fourth quarter of 2021 in its high deliverability gas-prone area. Subsequently, in early 2022, the Company completed both wells. The first well has been put on production and the second well is expected to commence production in the second quarter after construction of a pipeline connection is completed. At Spirit River, Kelt drilled, completed and put on production two Charlie Lake wells during 2021. The Company plans to follow-up with six additional Charlie Lake wells on its Progress/Spirit River land base in 2022.

At Wembley/Pipestone, on the southeastern portion of its 168-section Montney land block, Kelt completed the construction of its Phase 1 pipeline in late 2021 and is currently constructing Phase 2. On the northwestern portion of its land base, Kelt has commenced a 4-well pad and a 3-well pad development program. One of the wells on the 4-well pad will be drilled in a previously untested lower Montney zone (D1) that, if successful, could unlock significant inventory

upside at Wembley/Pipestone where Kelt is already developing three other layers in the Montney formation. The Company expects to bring 15 Montney wells on production at Wembley/Pipestone during 2022.

In anticipation of continued production growth, Kelt has been proactively seeking additional gas processing capability in all of its core operating areas through agreements with third party facility owners. In Alberta, Kelt expects to add 15 MMcf/d of additional gas processing capacity in 2022, 25 MMcf/d of capacity in 2023 and an additional 25 MMcf/d of capacity in late 2023/early 2024. At Oak in British Columbia, Kelt has the ability to add firm capacity as needed as the Company continues to develop its large Montney acreage.

With the strong performance in crude oil pricing, Kelt has revised its 2022 outlook and guidance. The Company has changed its 2022 forecasted average commodity prices as follows: the WTI crude oil price is forecasted to average US$85.00 per barrel, up 18% from the previous forecast of US$72.00 per barrel; and the NYMEX Henry Hub natural gas price is forecasted to average US$4.15 per MMBtu, up 1% from the previous forecast of US$4.10 per MMBtu. The Company will continue to monitor commodity prices and expects to provide updated 2022 guidance, if necessary, by mid-year.

Kelt has increased its 2022 capital expenditure program to $250.0 million, up from a range of $200.0 million to $210.0 million in its previous guidance. Production in 2022 is forecasted to average 31,000 BOE per day, up by 3% or 1,000 BOE per day from the Company's previous guidance. Exit 2022 production is expected to show a higher increase as the additional capital spending will be in the second half of the year giving the Company a strong start to 2023. Adjusted funds from operations is forecasted to be $300.0 million in 2022, up by 22% or $55.0 million from Kelt's previous forecast. The Company's financial position continues to remain strong as Kelt is forecasting a net surplus of $19.0 million at the end of 2022, giving the Company the ability to act on additional opportunities as they arise.

Kelt expects to report to shareholders its 2022 first quarter results on or about May 5, 2022.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
March 10, 2022

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 Tststanding2P 3H2. The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL". 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 10, 2022 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, 2021. 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 10, 2022.

GENERAL ADVISORY

This MD&A contains certain specified financial measures consisting of non-GAAP measures, capital management measures, and supplementary financial measures. These non-GAAP and other financial measures include "adjusted funds from operations", "annualized quarterly adjusted funds from operations", "adjusted funds from operations per common share", "petroleum and natural gas sales before marketing revenue" "petroleum and natural gas sales after cost of purchases", "operating netback", "net debt (surplus)", "net realized prices", "net debt (surplus) to annualized quarterly adjusted funds from operations ratio" and "Net Asset Value" 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 and Other Financial Measures*" 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.

FINANCIAL AND OPERATING SUMMARY

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**120,523**	41,961	187	**316,763**	207,156	53
Cash provided by operating activities	**52,056**	3,288	1483	**159,714**	59,279	169
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Diluted ($/ common share) [(1)]	**0.35**	0.06	483	**0.85**	0.31	174
Net income (loss) and comprehensive income (loss)	**52,996**	26,018	104	**114,256**	(324,807)	135
Diluted ($/ common share)	**0.28**	0.14	100	**0.60**	(1.73)	135
Capital expenditures, net of A&D [(1)]	**67,118**	24,470	174	**213,511**	(353,957)	160
Bank debt	**1,150**	-	-	**1,150**	-	-
Net debt (surplus) [(1)]	**28,220**	(27,655)	202	**28,220**	(27,655)	202
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**25,815**	16,476	57	**20,987**	24,992	-16
Combined net realized price, before financial instruments [(1)]	**50.01**	26.41	89	**40.52**	21.73	86
Combined net realized price, after financial instruments [(1)]	**47.39**	23.90	98	**38.38**	22.72	69
Operating netback [(1)]	**30.00**	8.40	257	**22.29**	8.41	165
Reserves – proved plus probable (mboe)	**254,149**	178,782	42	**254,149**	178,782	42

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

Inga Asset Disposition

On August 21, 2020, Kelt completed the disposition of its Inga/Fireweed assets (the “Inga Asset Disposition” or “Inga Assets”) for consideration of $503.9 million after closing adjustments. The purchaser also assumed $42.5 million of abandonment and reclamation liabilities, $28.8 million of financing liabilities and $1.1 million of lease and other liabilities. Kelt’s comparative 2020 financial and operating results include the Inga Assets until the closing of the disposition on August 21, 2020. Production from the Inga Assets was 9,052 BOE per day for the twelve months ending December 31, 2020.

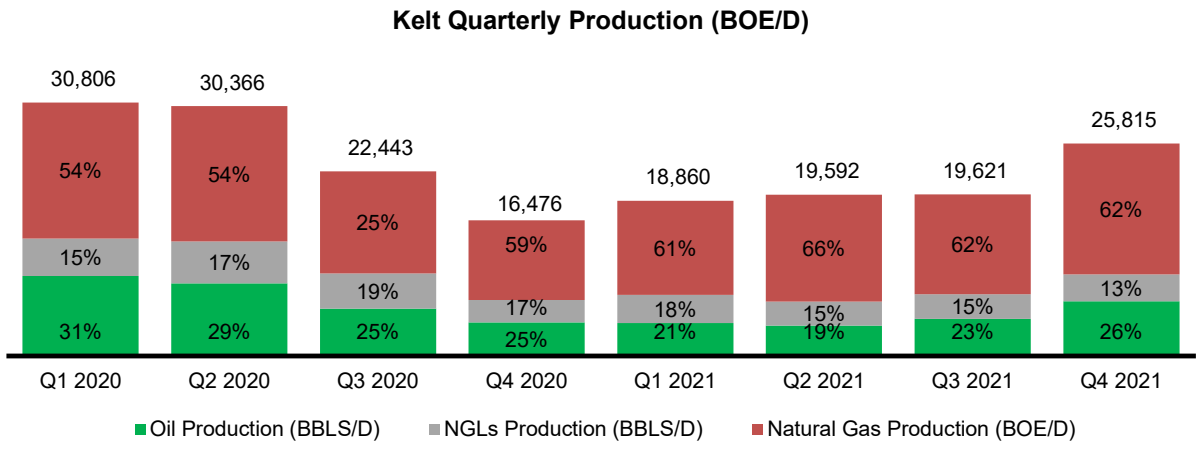
Kelt’s key financial and operating results in the fourth quarter of 2021 are highlighted by the following:

- **Production** – Fourth quarter 2021 production averaged 25,815 BOE per day (38% oil/NGLs), an increase of 57% from the fourth quarter of 2020, and an increase of 32% from the third quarter of 2021. During the fourth quarter of 2021, Kelt brought on-stream ten wells at Oak and three wells at Wembley.
- **Petroleum and natural gas sales –** Rising benchmark crude oil and natural gas prices resulted in a significant increase in petroleum and natural gas sales in 2021. For the three months ended December 31, 2021, petroleum and natural gas sales was $120.5 million, an increase of 187% from $42.0 million in the fourth quarter of 2020. Kelt’s combined net realized price before financial instruments of $50.01 per BOE increased 89% from the fourth quarter of 2020.
- **Operating netback** – Kelt’s operating netback of $30.00 per BOE for the quarter ended December 31, 2021 increased by 257% from the fourth quarter of 2020 and was driven primarily by an increase in petroleum and natural gas prices in 2021.
- **Cash provided by operating activities and adjusted funds from operations -** Cash provided by operating activities increased to $52.1 million in the fourth quarter of 2021 compared to the fourth quarter of 2020 of $3.3

million. Adjusted funds from operations of $68.2 million during the three months ended December 31, 2021 ($0.35 per share, diluted) increased 534% from the fourth quarter of 2020. The increase in both cash provided by operating activities and adjusted funds from operations was driven by an higher petroleum and natural gas sales in 2021.

- **Net income -** Kelt reported a net income of $53.0 million ($0.28 per common share, diluted) for the three months ended December 31, 2021, compared to a net income of $26.0 million ($0.14 per common share, diluted) in the comparative period in 2020.
- **Capital investments –** During the fourth quarter of 2021, capital expenditures, before property acquisitions and dispositions, was $67.0 million and included the drilling of 5.0 net wells and completion of 3.0 net wells. Facilities, pipeline and well equipment spend of $37.6 million was focused on the construction of pipelines, and a facility at Kelt's Oak property, which was brough on-stream in the fourth quarter of 2021.
- **Liquidity –** The Company ended the quarter with bank debt of $1.2 million and net debt of $28.2 million (0.1 times annualized quarterly adjusted funds from operations).
- The Company reported oil and gas reserves as at December 31, 2021:
    - Proved developed producing reserves of 43.9 million BOE (31% oil and NGLs), an increase of 48% from December 31, 2020;
    - Total proved reserves of 134.1 million BOE (39% oil and NGLs), an increase of 40% from December 31, 2020 ; and
    - Total proved plus probable reserves of 254.1 million BOE (41% oil and NGLs), an increase of 42% from December 31, 2020.

PRODUCTION



	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Average daily production:						
Oil (bbls/d) [(1)]	**6,624**	4,057	63	**4,692**	7,057	-34
NGLs (bbls/d)	**3,255**	2,722	20	**3,154**	4,161	-24
Gas (mcf/d)	**95,616**	58,179	64	**78,846**	82,646	-5
Combined (BOE/d)	**25,815**	16,476	57	**20,987**	24,992	-16
Oil and NGLs weighting	**38%**	41%	-7	**37%**	45%	-17

(1) "Oil" includes crude oil and field condensate combined

Average production for the three months ended December 31, 2021 increased 57% from the three months ended December 31, 2020. The increase in production was due to the Company's active 2021 drilling program, with the Kelt bringing on-stream ten wells at Oak and three wells at Wembley in the fourth quarter of 2021.

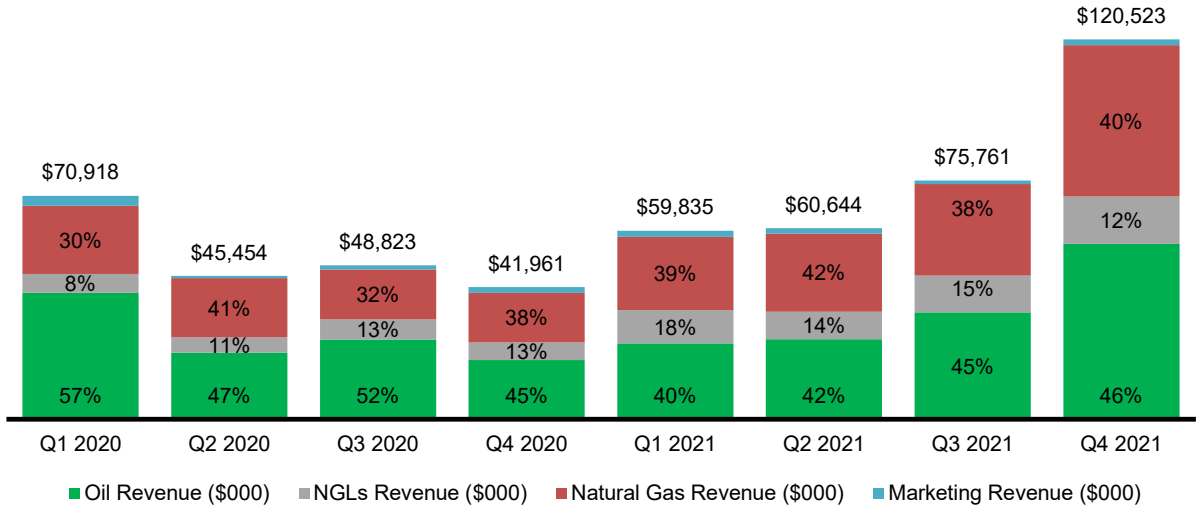
Average production for the twelve months ended December 31, 2021 decreased 16% from the twelve months ended December 31, 2020. The 2020 production included 9,052 BOE per day of production from the Inga Assets which were disposed of in the third quarter of 2020. Excluding the Inga Assets, production in 2021 increased by 32% from the twelve months ended December 31, 2020.

Oil and NGLs weighting of total production decreased in 2021 to 38% during the fourth quarter and to 37% for the year, versus the 41% and 45%, respectively, in the comparable periods in 2020. The Inga Assets had an overall higher liquids weighting than Kelt's other assets, resulting in a slight decrease in the Company's Oil and NGLs weighting after the Inga Asset Disposition.

PETROLEUM AND NATURAL GAS SALES ("P&NG SALES")

All references to revenue in this discussion are before royalties.

Kelt Quarterly Petroleum and Natural Gas Sales ($000)



	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
P&NG Sales before royalties and financial instruments:						
Oil [5]	**55,668**	18,761	197	**138,977**	105,316	32
NGLs	**14,983**	5,615	167	**46,083**	22,904	101
Gas	**48,047**	15,768	205	**125,086**	71,932	74
P&NG Sales before marketing revenue [4]	**118,698**	40,144	196	**310,146**	200,152	55
Marketing revenue [1]	**1,825**	1,817	-	**6,617**	7,004	-6
P&NG Sales	**120,523**	41,961	187	**316,763**	207,156	53
Cost of purchases [2]	**(1,765)**	(1,938)	-9	**(6,348)**	(8,303)	-24
P&NG Sales after cost of purchases [3] [4]	**118,758**	40,023	197	**310,415**	198,853	56
Net realized price ($/BOE) [4]	**50.01**	26.41	89	**40.52**	21.73	86

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

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

(3) P&NG sales after cost of purchases includes petroleum and natural gas sales, net of the cost of the third-party volumes purchased.

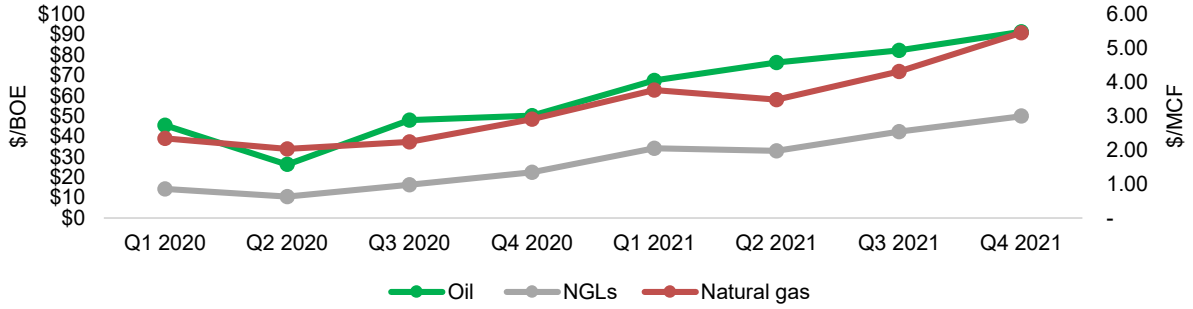
(4) Net realized price ($/BOE) equals P&NG sales after cost of purchases divided by total production. Refer to additional information under the heading of "Non-GAAP and Other Financial Measures".

(5) "Oil" includes crude oil and field condensate combined

Petroleum and natural gas sales for the fourth quarter of 2021 was $120.5 million, an increase of 187% from $42.0 million from the fourth quarter of 2020. Petroleum and natural gas sales for the twelve months ending December 31, 2021 was $316.8 million, an increase of 53% from the comparable period in 2020.

The increase in revenue from 2020 was due to a significant increase in benchmark commodity prices, which was partially offset by lower production as a result of the Inga Asset Disposition.

Kelt Quarterly Realized Prices (1)



(1) Net realized prices are calculated based on Petroleum and Natural Gas Sales, less the cost of purchases of third-party volumes 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 and Other Financial Measures".

	Three months ended December 31			Year ended December 31		
	2021	2020	%	**2021**	2020	%
Net realized prices						
Oil ($/bbl) (7)	**91.43**	50.30	82	**81.30**	40.80	99
NGLs ($/bbl)	**50.03**	22.42	123	**40.03**	15.04	166
Gas ($/mcf)	**5.46**	2.91	88	**4.35**	2.33	87
Combined ($/BOE)	**50.01**	26.41	89	**40.52**	21.73	86
Average benchmark prices						
Oil and NGLs						
WTI Cushing Oklahoma (US$/bbl) (1)	**77.43**	42.45	82	**68.03**	39.24	73
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) (2)	**93.26**	50.23	86	**80.29**	45.34	77
Edmonton Pentane (3)	**100.14**	55.86	79	**85.55**	49.85	72
Edmonton Butane (3)	**69.98**	19.33	262	**48.49**	21.87	122
Edmonton Propane (3)	**53.25**	16.32	226	**41.78**	16.31	156
Edmonton Ethane (3)	**12.08**	7.33	65	**9.67**	6.20	56

	Three months ended December 31			Year ended December 31		
	2021	2020	%	**2021**	2020	%
Natural Gas						
NYMEX Henry Hub (US$/MMBtu) (5)	**4.74**	2.47	92	**3.82**	1.99	92
AECO 5A (CA$/MMBtu) (4)	**4.65**	2.64	76	**3.62**	2.23	62
Chicago Alliance, into Interstates (CA$/MMBtu) (5)	**5.73**	2.95	94	**5.53**	2.48	123
Dawn (CA$/MMBtu) (5)	**5.85**	2.93	100	**4.54**	2.49	82
Malin (CA$/MMBtu) (5)	**6.76**	3.81	77	**4.95**	2.87	72
Sumas (CA$/MMBtu) (5)	**6.86**	4.62	48	**4.98**	3.10	61
Station 2 (CA$/MMBtu) (5)	**3.68**	2.54	45	**3.29**	2.18	51
Average exchange rate (CA$/US$) (6)	**1.2601**	1.3030	-3	**1.2536**	1.3412	-7

(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 (6).

(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 (6).

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

(6) Source: Bank of Canada.

(7) "Oil" includes crude oil and field condensate

Combined Net Realized Price

Kelt's combined net realized price increased 89% to $50.01 per BOE and 86% to $40.52 per BOE in the three months and twelve months ended December 31, 2021, respectively, versus the comparable periods in 2020. Benchmark prices for crude oil, natural gas and natural gas liquids have all increased in 2021 as global economies re-opened following the COVID-19 pandemic closures causing increased demand for commodities.

Oil prices

Benchmark WTI crude oil prices increased 73% for the year ended December 31, 2021 from the 2020 average price. The increase was primarily due to continued production supply curtailments from OPEC+ countries, on-going limited capital directed towards production growth in non-OPEC nations, and a significant reduction of global crude inventories as crude oil demand increased as countries exited COVID-19 pandemic lockdowns.

NGL prices

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

For the year ended 2021, Kelt's realized NGLs price increased 166% as compared to the year ended 2020, primarily due to an increase in benchmark WTI prices and regional improvements in NGLs prices.

Average benchmark propane and butane prices in the fourth quarter of 2021 have increased 226% and 262%, respectively, versus the fourth quarter of 2021. International benchmark propane and butane prices have increased significantly in 2021 due to a decrease in inventory storage levels. With a strong export market in North America for butane and propane, higher international benchmark prices have increased exports, resulting in North American inventory storage levels dropping below the five year average, pushing up domestic prices.

Natural gas prices

Canadian natural gas benchmark prices increased in 2021 as compared to 2020 due to a combination of increased Alberta and North American natural gas demand, higher US natural gas exports to Mexico and higher US LNG exports when compared to historical five-year averages. Kelt's realized natural gas price increased by 88% to $5.46 per MCF in the fourth quarter of 2021 and by 87% to $4.35 per MCF for the year ended December 31, 2021 versus the comparable periods in 2020.

Kelt manages its natural gas marketing portfolio in order to maximize its netbacks and manage its long term transportation commitments. Kelt's natural gas sold at US indices comprised of approximately 35% of natural gas sales

for the year ended December 31, 2021 compared to approximately 60% in 2020.

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:

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Realized gain (loss)	**(6,225)**	(3,806)	64	**(16,426)**	9,913	-266
Unrealized gain	**17,007**	3,925	333	**2,770**	3,767	-26
Gain (loss) on derivative financial instruments	**10,782**	119	8961	**(13,656)**	13,680	-200
$ per BOE	**4.54**	0.08	5575	**(1.78)**	1.49	-219

Commodity price risk

Inherent to the business of producing oil and gas, the Company's cash provided by (used in) 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 of March 10, 2022, the following commodity price risk management contracts are outstanding:

Contract Type[1][2][3]	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
NYMEX fixed price swap	15,000 MMBtu/d	CAD$5.37/MMBtu	Jan – Mar 2022
NYMEX fixed price swap	45,000 MMBtu/d	CAD$5.58/MMBtu	Apr – Oct 2022
NYMEX costless collar	10,000 MMBtu/d	Ceiling CAD$4.68/MMBtu Floor CAD$3.60/MMBtu	Jan – Mar 2022
Crude oil derivative contracts			
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.75 per bbl	Jan – Dec 2022
WTI fixed price swap	5,000 bbl/d	CAD$96.26/bbl	Jan – Mar 2022
WTI fixed price swap	3,000 bbl/d	CAD$95.67/bbl	Apr – Jun 2022

(1) West Texas Intermediate ("WTI")
(2) NYMEX Henry Hub ("NYMEX")
(3) 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. Based on bank debt balance as of December 31, 2021 of $1.2 million, an increase (decrease) in the market rate of interest by 25 basis points would have an insignificant impact. As of March 10, 2022, 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. As of March 10, 2022, there are no foreign exchange risk management contracts outstanding.

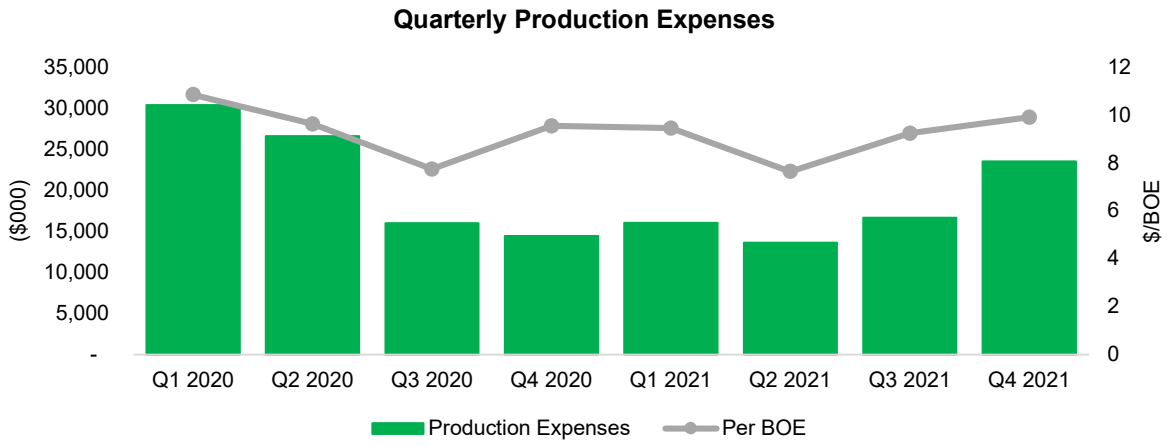
ROYALTIES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Royalties	**9,901**	3,224	207	**27,414**	10,354	165
Average royalty rate [1]	**8.3%**	8.0%	4	**8.8%**	5.2%	69
$ per BOE	**4.17**	2.13	96	**3.58**	1.13	217

(1) Average royalty rate is calculated based on total royalties as a percentage of "P&NG Sales, before marketing revenue" which excludes sales related to the sale of third-party production volumes used in oil blending operations (see table under the heading of *"Petroleum and Natural Gas Sales"*).

Kelt's average royalty rate was 8.3% during the fourth quarter of 2021, compared to 8.0% during the fourth quarter of 2020. Kelt's average royalty rate for the twelve months ended December 31, 2021 was 8.8% compared to 5.2% for the year ended December 31, 2020. The increase in the 2021 royalty rate was primarily due to higher commodity prices, a lower royalty rate associated with the Inga Assets sold in 2020 and a $1.2 million royalty credit in 2020 as part of 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 2020.

PRODUCTION EXPENSES

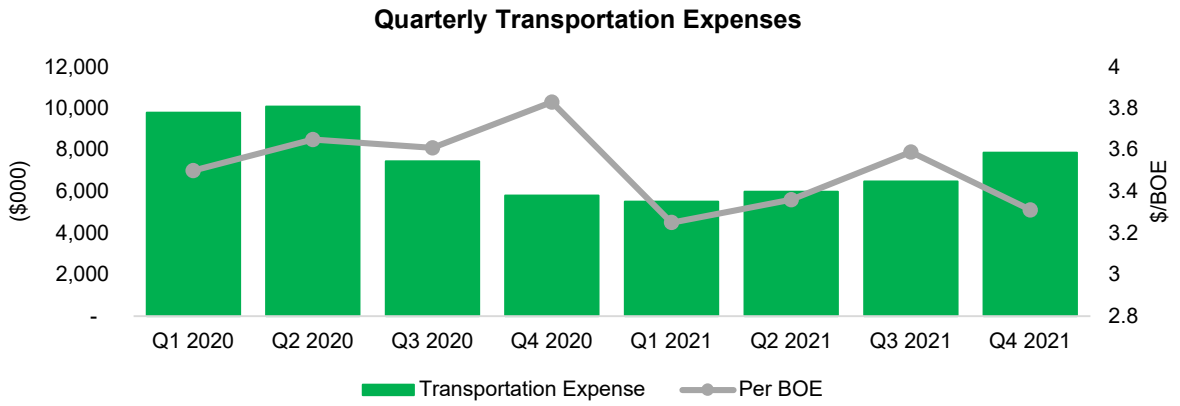


	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Production expense	**23,537**	14,460	63	**69,904**	87,447	-20
$ per BOE	**9.91**	9.54	4	**9.13**	9.56	-4

Fourth quarter production expenses in 2021 increased 63% compared to the same period in 2020, with the increase in expense broadly in-line with the quarter over quarter increase in production. Production expenses for the year ended December 31, 2021 decreased by 20% compared to the year ended December 31, 2020, with the decrease primarily due to lower production as a result of the Inga Asset Disposition which closed in August 2020.

On a per BOE basis, production expenses per BOE increased 4% in the fourth quarter of 2021, and decreased 4% for the year ended December 31, 2021 versus the comparable periods in 2020. Fourth quarter 2021 production expenses increased slightly from the fourth quarter of 2020 primarily due to higher initial trucking costs associated with the start-up of the Oak facility and related production. Production expense per BOE for the year ended December 31, 2021 decreased slightly from the year ended December 31, 2020. The decrease was primarily due to the addition of lower cost production in 2021.

TRANSPORTATION EXPENSES



	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Transportation expense [1]	**7,872**	5,807	36	**25,855**	33,155	-22
$ per BOE	**3.31**	3.83	-14	**3.38**	3.62	-7

(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 $3.31 per BOE during the fourth quarter of 2021, a decrease of 14% from $3.83 per BOE in the fourth quarter of 2020. Transportation expenses averaged $3.38 per BOE during the twelve months ending December 31, 2021, a decrease of 7% from $3.62 per BOE in the twelve months ended December 31, 2020.

Subsequent to the Inga Asset Disposition, Kelt reduced its overall exposure to US natural gas markets resulting in a decrease in natural gas transportation tolls. In addition, additional production brought on-stream in 2021 was sold primarily at AECO 5A and Station 2, resulting in lower transportation costs than production sold at other North American indices.

FINANCING EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Total interest expense	**296**	104	185	**440**	12,507	-96
Accretion of convertible debentures	**-**	-	-	**-**	3,640	-100
Accretion of decommissioning obligations	**561**	324	73	**2,003**	1,892	6
Total financing expense	**857**	428	100	**2,443**	18,039	-86
Interest expense per BOE [1]	**0.12**	0.07	71	**0.06**	1.37	-96
Average interest rates:						
Bank debt [2] [3]	**4.1%**	NA	-	**4.1%**	3.5%	17
Convertible debentures [3]	**NA**	NA	-	**NA**	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.

With proceeds from the Inga Asset Disposition, the Company repaid the outstanding amount on its revolving committed term credit facility and redeemed all outstanding convertible debentures resulting in a significant decrease in interest expense in 2021 compared to 2020.

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:

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Salaries and benefits	**2,972**	2,036	46	**9,713**	7,154	36
Other G&A expenses	**1,043**	809	29	**3,745**	4,586	-18
Gross G&A expenses	**4,015**	2,845	41	**13,458**	11,740	15
Overhead recoveries	**(1,129)**	(993)	14	**(4,207)**	(4,418)	-5
Net G&A expenses	**2,886**	1,852	56	**9,251**	7,322	26
Gross G&A ($ per BOE)	**1.69**	1.88	-10	**1.76**	1.28	38
Net G&A ($ per BOE)	**1.22**	1.22	-	**1.21**	0.80	51

Gross G&A expenses of $4.0 million increased 41% in the fourth quarter of 2021, from $2.8 million in the fourth quarter of 2020. Gross G&A expenses of $13.5 million for the year ended December 31, 2021 increased 15% from the year ended December 31, 2020. The increase in gross G&A expense in 2021 compared to 2020 is primarily driven by lower amounts received in 2021 from the federal government's Canada Emergency Wage Subsidy program and a decrease in employee compensation in 2020 due to cost savings initiatives as a result of the COVID-19 pandemic.

Net G&A expenses increased 56% in the three months ending December 31, 2021 and 26% for the twelve months ending December 31, 2021 compared to the comparable periods in 2020.

Net G&A per BOE was $1.22 for both the fourth quarter of 2021 and for the fourth quarter of 2020 and increased 51% to $1.21 per BOE for the twelve months ending December 31, 2021 compared to the twelve months ending December 31, 2020. The increase in net G&A per BOE was primarily due to the federal government's Canada Emergency Wage Subsidy program in 2020.

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

SHARE BASED COMPENSATION ("SBC")

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Stock options	**793**	525	51	**3,054**	2,945	4
Restricted share units ("RSUs")	**214**	230	-7	**1,162**	2,208	-47
Total SBC expense	**1,007**	755	33	**4,216**	5,153	-18
$ per BOE	**0.42**	0.50	-16	**0.55**	0.56	-2

The increase in SBC expense for the quarter ending December 31, 2021 compared to the same period in 2020 is primarily due the higher Black-Scholes value associated with recent options granted. The decrease in SBC expense for the year ended December 31, 2021 compared to the same periods in 2020 is primarily due to fewer restricted share units issued in recent periods.

As at December 31, 2021, stock options and RSUs outstanding represent 6.0% of total shares outstanding (December 31, 2020 – 5.5%).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Expiry of mineral leases	**709**	256	177	**928**	3,219	-71
$ per BOE	**0.30**	0.17	76	**0.12**	0.35	-66

E&E expense was $0.7 million for the quarter ended December 31, 2021 and $1.0 million in the year ended December 31, 2021, compared to E&E expense of $0.3 million and $3.2 million in the comparative periods in 2020. The E&E expense relates to the expiry and impairment of undeveloped land.

DEPLETION, DEPRECIATION AND IMPAIRMENT (REVERSAL)

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Depletion and depreciation	**26,936**	18,032	49	**91,251**	112,623	-19
Impairment (reversal)	**-**	-	-	**(70,130)**	336,500	-121
Total	**26,936**	18,032	49	**21,121**	449,123	-95
Depletion and depreciation ($/BOE)	**11.34**	11.90	-5	**11.91**	12.31	-3
Impairment (reversal) ($/BOE)	**-**	-	-	**(9.16)**	36.79	-125

Depletion and depreciation expense of $26.9 million for the quarter ended December 31, 2021 increased by 49% from $18.0 million in the comparable period in 2020. Depletion and depreciation expense for the year ended December 31, 2021 decreased 19% as compared to the prior year. On a per BOE basis, the depletion and depreciation expense per BOE decreased slightly in 2021, due to lower cost proved reserve additions in 2021.

In the first quarter of 2020, crude oil prices declined significantly as a result of the COVID-19 pandemic and 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).

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

In the second quarter of 2021, as a result of increased forward commodity price forecasts and an increase in the Company's market capitalization since December 31, 2020, an impairment reversal test was performed on the Alberta CGU. Based on the impairment reversal test performed, it was determined that the recoverable amount of the Alberta CGU was in excess of its carrying value resulting in an impairment reversal of $70.1 million (before-tax).

Based on its assessment as of December 31, 2021, the Company determined that there were no potential indicators of impairment for the Alberta CGU and BC CGU and there are no previous impairments available for reversals.

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Gain (loss) on sale of assets	**(13)**	(1,175)	-99	**794**	(4,751)	-117

In the third quarter of 2021, the Company disposed of non-core assets for net proceeds of $8.9 million after closing adjustments. The non-core assets had a net carrying value of $8.7 million (property plant and equipment costs of $21.7 million, accumulated depletion and depreciation of $10.9 million, exploration and evaluation costs of $1.4 million and abandonment obligations of $3.5 million), resulting in a gain on sale of $0.2 million.

On August 21, 2020, Kelt completed the Inga Asset Disposition for consideration of $503.9 million after closing adjustments. The Inga Assets had a carrying value of $511.0 million, subsequent to the impairment taken in the second quarter of 2020, resulting in a loss on sale of $7.1 million.

INCOME TAXES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Deferred income tax expense (recovery)	**1,932**	(31,879)	-106	**21,436**	(88,308)	-124
Net income (loss) before taxes	**54,928**	(5,861)	-1037	**135,692**	(413,115)	-133
Effective tax recovery rate	**3.5%**	543.9%	-99	**15.8%**	21.4%	-26

Kelt's consolidated combined federal and provincial statutory tax rate averaged 23.0% and 26.0% during the three months ended December 31, 2021 and 2020, respectively. For the quarter ended December 31, 2021, a deferred income tax expense of $1.9 million was recognized and for the twelve months ending December 31, 2021 a deferred income tax expense of $21.4 million was recognized.

Kelt did not recognized 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%. As a result reserves additions and new production from an exploration property Kelt recognized a deferred tax asset of $10.5 million in the fourth quarter of 2021.

The Company's consolidated tax pools are estimated to be approximately $774.2 million as of December 31, 2021, an increase of 8% from December 31, 2020 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**December 31 2021**	December 31 2020	%
Canadian oil and gas property expenses (COGPE)	10-15%	**73,107**	87,273	-16
Canadian development expenses (CDE)	30-45%	**125,246**	81,882	53
Canadian exploration expenses (CEE)	100%	**22,538**	53,859	-58
Undepreciated capital cost [(1)] (UCC)	25-37.5%	**196,613**	179,396	10
Share and debt issue costs	5 years	**240**	588	-59
Non-capital losses [(2)] (NCL)	100%	**356,439**	314,630	13
Estimated tax deductions available, end of period		**774,183**	717,628	8

(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 2033 to 2041.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating netback and adjusted funds from operations generated during the three months and year ended December 31, 2021 and 2020 respectively.

THREE MONTHS ENDED DECEMBER 31	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Petroleum and natural gas sales	**120,523**	41,961	187	**50.75**	27.69	83
Cost of purchases	**(1,765)**	(1,938)	-9	**(0.74)**	(1.28)	-42
Realized loss on financial instruments (1)	**(6,225)**	(3,806)	64	**(2.62)**	(2.51)	4
Royalties	**(9,901)**	(3,224)	207	**(4.17)**	(2.13)	96
Revenue, after royalties and financial instruments	**102,632**	32,993	211	**43.22**	21.77	99
Production expense	**(23,537)**	(14,460)	63	**(9.91)**	(9.54)	4
Transportation expense	**(7,872)**	(5,807)	36	**(3.31)**	(3.83)	-14
Operating netback (2)	**71,223**	12,726	460	**30.00**	8.40	257
Financing expense (3)	**(296)**	(104)	185	**(0.12)**	(0.07)	71
G&A expense	**(2,886)**	(1,852)	56	**(1.22)**	(1.22)	-
Realized loss on foreign exchange	**95**	(140)	-168	**0.04**	(0.09)	-144
Other income/expense (5)	**19**	128	-85	**0.01**	0.08	-88
Adjusted funds from operations (2)	**68,155**	10,758	534	**28.71**	7.10	304
Basic ($ per common share) (4)	**0.36**	0.06	500			
Diluted ($ per common share) (4)	**0.35**	0.06	483			
Common shares outstanding (000s):						
Basic, weighted average	**189,134**	188,551	-			
Diluted, weighted average	**192,676**	189,270	2			

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

(2) Refer to advisories regarding *"*Non-GAAP and Other Financial Measures*"*.

(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.

(5) Excludes non cash provisions

During the three months ended December 31, 2021, adjusted funds from operations of $68.2 million ($0.35 per share, diluted) increased by 534% from $10.8 million ($0.06 per share, diluted) in the fourth quarter of 2020. The increase in adjusted funds from operations is primarily attributed to a 460% increase in operating netback.

YEAR ENDED DECEMBER 31	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Petroleum and natural gas sales	**316,763**	207,156	53	**41.35**	22.65	83
Cost of purchases	**(6,348)**	(8,303)	-24	**(0.83)**	(0.92)	-10
Realized gain (loss) on financial instruments (1)	**(16,426)**	9,048	-282	**(2.14)**	0.99	-316
Royalties	**(27,414)**	(10,354)	165	**(3.58)**	(1.13)	217
Revenue, after royalties and financial instruments	**266,575**	197,547	35	**34.80**	21.59	61
Production expense	**(69,904)**	(87,447)	-20	**(9.13)**	(9.56)	-4
Transportation expense	**(25,855)**	(33,155)	-22	**(3.38)**	(3.62)	-7
Operating netback (3)	**170,816**	76,945	122	**22.29**	8.41	165
Financing expense (4)	**(440)**	(12,507)	-96	**(0.06)**	(1.37)	-96
G&A expense	**(9,251)**	(7,322)	26	**(1.21)**	(0.80)	51
Realized gain on financial instruments (2)	**-**	865	-100	**-**	0.09	-100
Realized loss on foreign exchange	**15**	(28)	-154	**-**	-	-
Other income/expense(6)	**254**	879	-71	**0.03**	0.10	-70
Adjusted funds from operations (3)	**161,394**	58,832	174	**21.05**	6.43	227
Basic ($ per common share) (5)	**0.85**	0.31	174			
Diluted ($ per common share) (5)	**0.85**	0.31	174			

YEAR ENDED DECEMBER 31	Amount	$/BOE				
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Common shares outstanding (000s):						
Basic, weighted average	**188,800**	188,093	-			
Diluted, weighted average	**190,807**	188,093	1			

(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 and Other Financial Measures".

(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.

(6) Excludes non cash provisions

During the year ended December 31, 2021, adjusted funds from operations of $161.4 million ($0.85 per share, diluted) increase by 174% from $58.8 million ($0.31 per share, diluted) during the year ended December 31, 2020. The increase in adjusted funds from operations is primarily attributed to a 122% increase in operating netback and a 96% decrease in financing expenses.

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

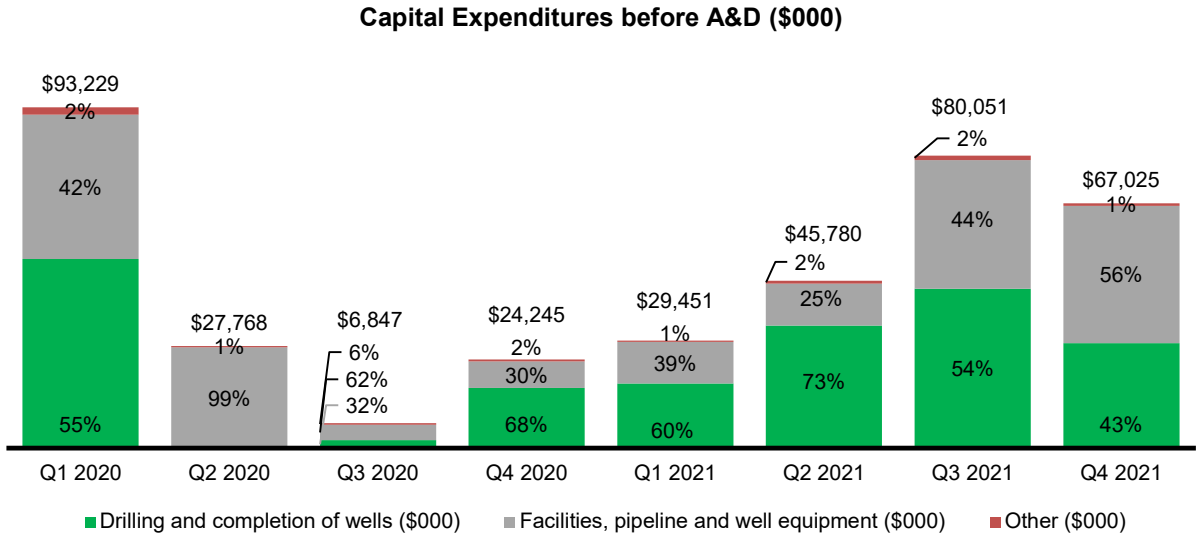
	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Net income (loss) and comprehensive income (loss)	**52,996**	26,018	104	**114,256**	(324,807)	-135
$ per common share, basic	**0.28**	0.14	100	**0.61**	(1.73)	-135
$ per common share, diluted (1)	**0.28**	0.14	100	**0.60**	(1.73)	-135
$ per BOE	**22.33**	17.17	30	**14.90**	(35.51)	-142
Wtd avg. shares outstanding, basic (000s)	**189,134**	188,551	-	**188,800**	188,093	-
Wtd avg. shares outstanding, diluted (000s) (1)	**192,676**	189,270	2	**190,807**	188,093	1

(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.

Kelt reported net income of $53.0 million ($0.28 per common share, diluted) for the quarter ended December 31, 2021, compared to net income of $26.0 million ($0.14 per common share, diluted) in the fourth quarter of 2020. Kelt reported a net income of $114.3 million ($0.60 per common share, diluted) for the year ended December 31, 2021, compared to a net loss of $324.8 million ($1.73 per common share, diluted) in the prior year. Kelt's net income for the year ended December 31, 2021 included a before-tax impairment reversal of $77.1 million and Kelt's net loss for the year ended December 31, 2020 included a before-tax impairment of $336.5 million.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES



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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Capital expenditures:						
Lease acquisition and retention	**559**	141	296	**1,872**	1,285	46
Geological and geophysical	**78**	18	333	**119**	1,525	-92
Drilling and completion of wells	**28,753**	16,467	75	**123,508**	70,174	76
Facilities, pipeline and well equipment	**37,562**	7,270	417	**95,721**	78,667	22
Corporate assets	**73**	349	-79	**1,087**	438	148
Capital expenditures, before A&D [(1)]	**67,025**	24,245	176	**222,307**	152,089	46
Property acquisitions	**36**	327	-89	**252**	2,343	-89
Property dispositions	**57**	(102)	-156	**(9,048)**	(508,389)	-98
Capital expenditures, net of A&D [(1)]	**67,118**	24,470	174	**213,511**	(353,957)	160

(1) Refer to advisories regarding "Non-GAAP and Other Financial Measures".

In 2020, drilling operations were suspended in the second and third quarter due to the uncertainty in commodity prices during the onset of the COVID-19 pandemic. As commodity prices recovered in 2021, Kelt utilized its strong financial position to resume its capital expenditure program in each of its operating divisions.

Capital expenditures before A&D increased 176% in the fourth quarter of 2021 and 46% for the year ended December 31, 2021 versus the comparable periods in 2020.

Kelt's facility, pipeline and well equipment expenditures of $37.6 million for the three months ended December 31, 2021 and $95.7 million for the year ending December 31, 2021 related primarily to the construction and start-up operations of an oil battery, gas compression facility and related pipelines at Oak, and the construction of pipelines at Pouce Coupe and Wembley as the Company brought new wells on-stream.

In the fourth quarter of 2021, drilling and completion costs of $28.8 million included the drilling of 4.7 net wells and completion of 3.0 net wells. For the year ended December 31, 2021, drilling and completion costs of $123.5 million

included the drilling of 20.7 net wells, the completion of 23.0 net wells, and two additional service wells that were brought on-stream.

	Three months ended December 31			Year ended December 31		
Gross Wells	**2021**	2020	%	**2021**	2020	%
Drilling	**5.0**	5.0	-	**21**	14.0	50
Completion	**3.0**	2.0	50	**23**	9.0	156
Service	**-**	-	-	**2**	-	-

	Three months ended December 31			Year ended December 31		
Net Wells	**2021**	2020	%	**2021**	2020	%
Drilling	**4.7**	5.0	-6	**20.7**	14.0	48
Completion	**3.0**	2.0	50	**23.0**	9.0	156
Service	**-**	-	-	**2.0**	-	-

LAND HOLDINGS

The table below sets-out Kelt's significant Montney land holdings across British Columbia and Alberta as at December 31, 2021.

MONTNEY RIGHTS	**Net Acres**	Net Sections
British Columbia	**196,247**	306.6
Alberta	**160,472**	250.7
Total	**356,719**	557.4
CHARLIE LAKE RIGHTS		
Alberta	**73,347**	114.6

Kelt's has 557.4 net sections of Montney rights and 114.6 net sections of Charlie Lake rights.

CAPITAL RESOURCES AND 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 of December 31, 2021 the Company had a $20.0 million demand revolving credit facility and a $80.0 million revolving term facility ("the Credit Facility") with a Canadian chartered bank. The Credit Facility may be extended annually at Kelt's option, subject to lender approval, with a 364 day term-out period if not renewed. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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 $800.0 million.

	December 31, 2021	December 31, 2020
Bank debt	**1,150**	-
Accounts payable and accrued liabilities	**72,453**	36,565
Cash and cash equivalents	**(719)**	(31,570)
Accounts receivable and accrued sales	**(42,584)**	(20,954)
Prepaid expenses and deposits	**(2,080)**	(11,696)
Net debt (surplus) [(1)]	**28,220**	(27,655)
Annualized quarterly adjusted funds from operations [(1)(2)]	**272,620**	43,032
Net debt (surplus) to annualized quarterly adjusted funds from operations ratio [(1)]	**0.1**	(0.6)

(1) Refer to advisories regarding Capital Management Measures.

(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 debt (surplus) to annualized quarterly adjusted funds from operations ratio, which is a non-GAAP financial measure. Kelt targets a net debt (surplus) to annualized quarterly adjusted funds from operations ratio of less than 2.0 times.

Following the Inga Asset Disposition, Kelt repaid and redeemed all outstanding bank debt and convertible debentures. Throughout 2021, Kelt has maintained its debt at a low levels, and expects this to continue in 2022.

The Company may adjust its future capital structure and capital expenditures according to market conditions 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.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2021:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	72,453	-	-	**72,453**
Derivative financial instruments	1,109	-	-	**1,109**
Lease liability	609	399	-	**1,008**
Bank debt and estimated interest [(1)]	47	1,150	-	**1,197**
Total	**74,218**	**1,549**	**-**	**75,767**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 4.1% for the year ended December 31, 2021, applied to the principal balance outstanding as at that date.

COMMITMENTS

As of December 31, 2021, the Company is committed to future payments under the following agreements:

	2022	2023	2024	2025	2026	Thereafter
Firm processing commitments	16,282	16,862	17,151	15,048	14,797	43,013
Firm transportation commitments [(1)]	24,755	23,343	20,881	17,886	16,015	22,448
Total commitments	**41,037**	**40,205**	**38,032**	**32,934**	**30,812**	**65,461**

(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, 2021 of CA$/US$1.2678.

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2021 there were 189.2 million common shares issued and outstanding. There are no preferred shares issued or outstanding.

At December 31, 2021, officers, directors, and employees have been granted options to purchase 10.5 million common

shares of the Company at an average exercise price of $3.52 per common share. In addition, there are 0.8 million RSUs outstanding.

The following table outlines Kelt's common share trading activity during 2021 and 2020:

SHARE TRADING ACTIVITY (KEL)	YTD 2021	YTD 2020
High ($)	**5.44**	5.00
Low ($)	**1.74**	0.67
Close ($)	**4.82**	1.80
Volume traded (thousands)	**156,801**	310,802
Value traded ($ thousands)	**501,057**	561,903
Weighted average trading price ($)	**3.20**	1.81

RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where the corporate secretary 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, 2021, the Company incurred $0.2 million (December 31, 2020 – $0.8 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, 2021 and 2020.

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, 2021 and at December 31, 2020 were determined using the guidelines and definitions set out under National Instrument 51-101 ("NI 51-101"). The Sproule Report is dated February 8, 2022 and is effective as of December 31, 2021.

At December 31, 2021, Kelt's proved plus probable reserves were 254.1 million BOE, up 42% from 178.8 million BOE at December 31, 2020. The Company's net present value of proved plus probable reserves at December 31, 2021, discounted at 10% before tax, was $2.1 billion, an increase of 130% from $931.7 million at December 31, 2020. The undiscounted future net cash flow, before tax, was $3.9 billion as of December 31, 2021, an increase of 106% from $1.9 billion as of December 31, 2020. Sproule's forecasted commodity prices for 2022 used to determine the present value of the Company's reserves at December 31, 2021, are US$73.00 per barrel for WTI oil and CAD$3.68 per GJ for AECO-C gas.

At December 31, 2021, the weighting of proved plus probable reserves was 41% oil/NGLs and 59% natural gas. At December 31, 2020, the weighting of proved plus probable reserves was 42% oil/NGLs and 58% natural gas.

The following table outlines a summary of the Company's reserves volumes at December 31, 2021:

SUMMARY OF RESERVE VOLUMES	Crude Oil (mbbls)	Liquids[(1)] (mbbls)	Natural Gas (mmcf)	Combined (mBOE)	FDC Costs ($ thousands)
Proved developed producing	4,908	8,537	182,455	**43,854**	**1,427**
Proved developed non-producing	205	731	6,883	**2,083**	**1,954**
Proved undeveloped	9,069	28,631	302,720	**88,155**	**750,956**
Total Proved	**14,182**	**37,899**	**492,058**	**134,092**	**754,337**
Probable additional	10,065	42,678	403,890	**120,057**	**666,520**
Total Proved plus Probable	**24,247**	**80,577**	**895,948**	**254,149**	**1,420,857**

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

CHANGE IN RESERVES – YEAR OVER YEAR (mBOE)	**December 31 2021**	December 31 2020	% Change
Proved developed producing	**43,854**	29,606	48
Proved developed non-producing	**2,083**	2,213	-6
Proved undeveloped	**88,155**	64,137	37
Total Proved	**134,092**	95,956	40
Probable additional	**120,057**	82,826	45
Total Proved plus Probable	**254,149**	178,782	42

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 TOTAL PROVED	Crude Oil (mbbls)	Liquids[1] (mbbls)	Natural Gas (mmcf)	**Combined (mBOE)**
Balance, December 31, 2020	15,450	22,453	348,315	**95,956**
Extensions and infill drilling	1,081	9,670	88,411	**25,487**
Technical revisions	70	6,587	86,775	**21,120**
Economic factors	3	426	2,246	**803**
Dispositions	(709)	(86)	(4,983)	**(1,626)**
Net additions	**445**	**16,597**	**172,449**	**45,784**
2021 Production [2]	(1,713)	(1,151)	(28,706)	**(7,648)**
Balance, December 31, 2021 [2]	**14,182**	**37,899**	**492,058**	**134,092**

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

(2) Sulphur production of 12 MBOE have been excluded in the above table.

RESERVES RECONCILIATION – 2P TOTAL PROVED PLUS PROBABLE	Crude Oil (mbbls)	Liquids[1] (mbbls)	Natural Gas (mmcf)	**Combined (mBOE)**
Balance, December 31, 2020	28,168	47,451	618,975	**178,782**
Extensions and infill drilling	1,539	24,388	189,208	**57,461**
Technical revisions	(2,279)	9,997	125,403	**28,619**
Economic factors	3	54	600	**157**
Additions	186	13	764	**326**
Dispositions	(1,657)	(175)	(10,296)	**(3,548)**
Net additions	**(2,208)**	**34,277**	**305,679**	**83,015**
2021 Production [2]	(1,713)	(1,151)	(28,706)	**(7,648)**
Balance, December 31, 2021 [2]	**24,247**	**80,577**	**895,948**	**254,149**

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

(2) Sulphur production of 12 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, 2021 reserve evaluations:

FDC EXPENDITURES ($ thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Proved reserves	147,975	150,025	148,198	149,185	158,955	-	754,337
Proved plus probable	206,736	247,158	296,486	295,123	295,033	80,322	1,420,857

The following table outlines FDC expenditures and future wells to be drilled by province, included in the December 31, 2021 and 2020 reserve evaluations for proved plus probable reserves:

FDC EXPENDITURES	Year ended December 31, 2021		Year ended December 31, 2020	
TOTAL PROVED PLUS PROBABLE	**FDC ($M)**	**Net Wells**	FDC ($M)	Net Wells
Alberta Montney Wells	**1,091.1**	**158.3**	670,593	121.3
B.C. Montney Wells	**129.5**	**22.0**	58,076	11.0
Total Montney Wells	**1,220.6**	**180.3**	728,669	132.3
Other formations (including Doig/Charlie Lake)	**157.4**	**41.8**	148,778	42.0
Other expenditures	**42.9**	**-**	49,103	-
Total FDC Expenditures	**1420.9**	**222.1**	926,550	174.3

The following table outlines forecasted future prices that Sproule has used in their evaluation of the Company's reserves at December 31, 2021:

FUTURE COMMODITY PRICE FORECAST	WTI Cushing Oklahoma US$/bbl	Canadian Light Sweet CA$/bbl	NYMEX Henry Hub US$/MMBtu	AECO-C Spot CA$/GJ	USD/CAD Exchange US$/CA$
2022	73.00	86.25	4.00	3.68	0.80
2023	70.00	82.40	3.50	3.19	0.80
2024	68.00	79.80	3.25	2.86	0.80
2025	69.36	81.39	3.32	2.92	0.80
2026	70.75	83.02	3.38	2.98	0.80
Five year average	**70.22**	**82.57**	**3.49**	**3.13**	**0.80**

The following table summarizes the net present value of the Company's reserves (before tax) as at December 31, 2021:

NET PRESENT VALUE (BEFORE TAX)			
(CA$ millions)	Undiscounted	NPV 5% BT	NPV 10% BT
Proved developed producing	573	573	520
Proved developed non-producing	38	35	32
Proved undeveloped	1,229	816	574
Total Proved	**1840**	**1,424**	**1,126**
Probable additional	2,086	1,401	1,018
Total Proved plus Probable	**3,926**	**2,825**	**2,144**

The following table summarizes the net present value of the Company's reserves (after tax) as at December 31, 2021:

NET PRESENT VALUE (AFTER TAX)			
(CA$ millions)	Undiscounted	NPV 5% AT	NPV 10% AT
Proved developed producing	573	573	520
Proved developed non-producing	38	35	32
Proved undeveloped	951	626	434
Total Proved	**1,562**	**1,234**	**986**
Probable additional	1,599	1,063	763
Total Proved plus Probable	**3,161**	**2,297**	**1,749**

During 2021, the Company's capital expenditures, net of dispositions, resulted in net proved plus probable reserve additions of 83.0 million BOE, resulting in 2P finding, development, acquisition and disposition ("FDA&D") costs of $8.53 per BOE (2020 - $6.89 per BOE), including FDC expenditures. Net proved reserve additions in 2021 were 45.8 million BOE, resulting in proved FDA&D costs of $9.42 per BOE (2020 - $10.01 per BOE), including FDC expenditures.

Capital expenditures, after dispositions, in 2021 was $213.5 million. In 2021, the Company achieved historically high recycle ratios of 3.5 times for 2P (compared to 1.2 times in 2020) and 3.2 times for 1P (compared to 0.8 times in 2020).

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

FINDING, DEVELOPMENT & ACQUISITION COSTS – 1P	Year ended December 31	
(CA$ thousands, except as otherwise noted)	**2021**	2020
Proved (1P) reserves:		
Capital expenditures, net of dispositions [(1)]	**213,511**	(353,957)
Change in FDC costs required to develop 1P reserves	**217,631**	(842,190)
Total capital costs	**431,142**	(1,196,147)
1P Reserve additions, net (mBOE)	**45,784**	(119,491)
1P FD&A cost, including FDC ($/BOE)	**9.42**	10.01
Operating netback ($/BOE) [(2)]	**30.00**	8.41
1P Recycle ratio	**3.2 x**	0.8 x

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

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

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

FINDING, DEVELOPMENT & ACQUISITION COSTS – 2P	Year ended December 31	
(CA$ thousands, except as otherwise noted)	**2021**	2020
Proved plus probable (2P) reserves:		
Capital expenditures, net of dispositions [(1)]	**213,511**	(353,957)
Change in FDC costs required to develop 2P reserves	**494,307**	(1,527,897)
Total capital costs	**707,818**	(1,881,854)
2P Reserve additions, net (mBOE)	**83,015**	(273,064)
2P FD&A cost, including FDC ($/BOE)	**8.53**	6.89
Operating netback ($/BOE) [(2)]	**30.00**	8.41
2P Recycle ratio	**3.5 x**	1.2 x

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

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

"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 and Other Financial Measures"*).

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 $2.3 billion or $11.47 per common share as at December 31, 2021 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, 2021 was internally valued at an average price of $364 per acre (2020 – $195 per acre). Management believes that the "Net Asset Value"

provides a useful measure to analyze the comparative change in the Company's estimated value on a normalized basis.

(CA$ thousands, except per share amounts)	**December 31, 2021**	December 31, 2020
Present value of 2P P&NG reserves, discounted at 10% before tax	**2,143,646**	931,756
Undeveloped land	**135,429**	80,196
Net (debt) surplus [2]	**(28,220)**	27,655
Proceeds from exercise of stock options [1]	**22,704**	2,331
Net asset value	**2,273,559**	1,041,938
Common shares, RSU's and "in the money" stock options (000s) [1]	**198,208**	191,271
Net asset value ($ per common share)	**11.47**	5.45

(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 $4.82 and $1.80 per common share respectively, as at December 31, 2021 and 2020. All outstanding RSUs are included in diluted common shares outstanding.

(2) Refer to advisories regarding *"*Non-GAAP and Other Financial Measures*"*.

SUMMARY OF QUARTERLY RESULTS

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

(CA$ thousands, except as otherwise indicated)	**Q4 2021**	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Petroleum and natural gas sales	**120,523**	75,761	60,644	59,835	41,961	48,823	45,454	70,918
Cash provided by (used in) operating activities	**52,056**	46,547	34,529	26,582	3,288	(8,610)	14,429	50,172
Adjusted funds from operations [1]	**68,155**	36,336	29,452	27,451	10,758	9,002	11,712	27,360
Per share – basic ($/common share) [1]	**0.36**	0.19	0.16	0.15	0.06	0.05	0.06	0.15
Per share – diluted ($/common share) [1]	**0.35**	0.19	0.15	0.14	0.06	0.05	0.06	0.15
Net income (loss) and comprehensive income (loss)	**52,996**	3,752	54,654	2,854	26,018	(24,080)	(252,661)	(74,085)
Per share – basic ($/common share)	**0.28**	0.02	0.29	0.02	0.14	(0.13)	(1.35)	(0.39)
Per share – diluted ($/common share)	**0.28**	0.02	0.29	0.02	0.14	(0.13)	(1.35)	(0.39)
Capital expenditures, net of dispositions [1]	**67,118**	71,162	45,786	29,446	24,470	(497,321)	27,768	91,126
Total assets	**913,497**	872,212	842,454	775,033	759,987	824,751	1,295,965	1,608,870
Bank debt	**1,150**	-	-	-	-	-	320,300	310,000
Net debt (surplus) [1]	**28,220**	28,174	(6,696)	(24,303)	(27,655)	(132,263)	373,513	356,393
Convertible debentures	**-**	-	-	-	-	89,910	85,181	83,957
Shareholders' equity	**722,724**	668,561	663,284	607,285	603,684	576,862	599,399	850,486
Average daily production (BOE/d)	**25,815**	19,621	19,592	18,860	16,476	22,443	30,366	30,806
Combined net realized price ($/BOE) [1][2]	**47.39**	38.33	31.49	33.07	23.90	19.31	20.67	26.65
Operating netback ($/BOE) [1]	**30.00**	21.10	17.68	17.67	8.40	7.02	6.56	11.28
Operating netback % of combined net realized price [2]	**63%**	55%	56%	53%	35%	36%	32%	42%

(1) Refer to advisories regarding *"*Non-GAAP and Other Financial Measures*"*.

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

In March 2020, the World Health Organization 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. This resulted in lower petroleum and natural gas sales revenue in 2020, which in turn reduced adjusted funds from operations and net income (loss).

Crude oil prices reached a bottom in the second quarter of 2020, with unprecedented negative WTI benchmark prices

occurring in April 2020. However positive vaccine development and rollout, along with significant production curtailments from OPEC+ and non-OPEC nations, resulted in a significant re-bound in crude oil prices at the end of 2020 and into 2021. Throughout 2021, benchmark global crude oil prices steadily increased due to increasing global demand, OPEC+ production curtailments, and low levels of capital investment in both OPEC+ non-OPEC nations.

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.

The average benchmark North American natural gas prices increased in 2021 over the prior year due to a colder than average start of 2021, record LNG exports in 2021, and slightly below average storage levels heading into the winter months.

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.

(CA$ thousands, except as otherwise indicated)	**2021**	2020	2019
Petroleum and natural gas sales	**316,763**	207,156	394,356
Cash provided by operating activities	**159,714**	59,279	162,488
Adjusted funds from operations [1]	**161,394**	58,832	182,521
Per share – basic ($/common share)	**0.85**	0.31	0.99
Per share – diluted ($/common share)	**0.85**	0.31	0.99
Net income (loss) and comprehensive income (loss)	**114,256**	(324,807)	6,572
Per share – basic ($/common share)	**0.61**	(1.73)	0.04
Per share – diluted ($/common share)	**0.60**	(1.73)	0.04
Capital expenditures, net of A&D [1]	**213,511**	(353,957)	315,624
Total assets	**913,497**	759,987	1,605,465
Bank debt	**1,150**	-	300,000
Net debt (surplus) [1]	**28,220**	(27,655)	320,509
Convertible debentures	**-**	-	82,789
Shareholders' equity	**722,724**	603,684	923,062
Average daily production (BOE/d)	**20,987**	24,992	29,961
Combined net realized price ($/BOE) [1][2]	**38.38**	22.72	34.45
Operating netback ($/BOE) [1]	**22.29**	8.41	18.89
Operating netback as a % of combined net realized price [2]	**58%**	37%	55%

(1) Refer to advisories regarding *"Non-GAAP and Other Financial Measures"*.

(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 2022 capital expenditure budget of $50.0 million to $250.0 million. The 2022 capital expenditures are expected to be allocated as follows: $169.0 million for drilling and completing wells, $67.0 million for facilities, pipeline and equipment and $14.0 million for land and seismic. Kelt expects to drill 28.1 net wells, complete 28.1 net wells by the end of 2022.

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, 2021, the date of the Company's original

2022 guidance. Kelt is continuing to forecast a positive working capital balance at the end of 2022.

Forecasted average production for 2022 is estimated to be approximately 31,000 BOE per day, representing 20% growth from the fourth quarter of 2021. Kelt's forecasted 2022 production will be weighted approximately 37% oil and NGLs and 63% natural gas.

The Company has increased its WTI crude oil price forecast for 2022 to US$85.00 per barrel, up 18% from its previous forecast of US$72.00 per barrel and an increase of 25% over 2021 prices. Canadian Light Sweet is forecasted to average $102.50 per barrel in 2022, an increase of 23% from its previous forecase of US$83.13 per barrel, and an increase of 28% over 2021 prices. Natural gas prices are forecast to average US$3.10 per MMbtu for AECO and US$4.15 per MMbtu for NYMEX in 2022, an increase of 7% and 9% respectively over 2021 prices.

Using the revised commodity price forecasts for 2022, Kelt is forecasting 2022 adjusted funds from operations of $300.0 million, up 22% from its previous forecast. Kelt estimates a working capital surplus of $19.0 million at the end of December 31, 2022.

A 10% increase/decrease in the Company's forecasted oil/NGLs price for 2022 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 2022 would increase/decrease adjusted funds from operations by approximately $6.6 million.

The table below outlines the Company's updated forecast for 2022 with a comparison to the previously announced guidance included in Kelt's press release dated November 10, 2021 and comparison to 2021 actuals:

(CA$ millions, except as otherwise indicated)	**Current 2022 Budget**	**Previous 2022 Guidance (Nov 10, 2021)**	**% Change to Current 2022 Budget**	**2021 Actuals**	**% Change to Current 2022 Budget**
Average Production					
Oil and NGLs (bbls/d)	**11,580**	11,500	1	7,846	48
Gas (mmcf/d)	**117**	111.0	5	79	48
Combined (BOE/d)	**31,000**	30,000	3	20,987	48
Forecasted Average Commodity Prices					
WTI oil price (US$/bbl)	**85.00**	72.00	18	68.03	25
Canadian Light Sweet ($/bbl)	**102.50**	83.13	23	80.29	28
NYMEX natural gas price (US$/MMBTU)	**4.15**	4.10	1	3.82	9
AECO natural gas price (US$/MMBTU)	**3.10**	3.06	1	2.89	7
Average Exchange Rate (US$/CA$)	**0.8000**	0.8150	-2	0.7977	-
Capital Expenditures					
Drilling & completions	**169**	125 – 130	30 – 35	123.5	37
Equipment, Facilities & Pipeline Infrastructure	**67**	60 – 65	3 – 12	95.7	-30
Land, Seismic & Asset Acquisitions, net of Property Dispositions	**14**	15	-7	(5.7)	345
Capital Expenditures, net of A&D [(1)]	**250**	200 – 210	25	213.5	17

(CA$ millions, except as otherwise indicated)	**Current 2022 Budget**	**Previous 2022 Guidance (Nov 10, 2021)**	**% Change to Current 2022 Budget**	**2021 Actuals**	**% Change to Current 2022 Budget**
Petroleum and natural gas sales	**513.9**	444.7	16	316.8	62
Adjusted funds from operations (1)	**300.0**	245.0	22	161.4	86
Per common share, diluted (1)	**1.55**	1.28	21	0.85	82
Net debt (surplus) (1)	**(19.0)**	(23.8)	-20	28.2	-167
Weighted average common shares outstanding (millions) (1)	**189.3**	189.2	-	188.8	-

(1) Refer to advisories regarding "Non-GAAP and Other Financial Measures".

Kelt expects to maintain 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 economic environment changes.

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 2022. 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 2 of the consolidated annual financial statements as at and for the year ended December 31, 2021. 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 and could be impacted by a shift in demand as global energy markets transition to a lower carbon-based economy. 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, 2021, 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.

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. The timing of when, or if the global energy markets transition from carbon-based sources to alternative energy sources is highly uncertain and may impact the FVLCD. 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.

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 future value of the decommissioning obligation can fluctuate in response to many factors including changes to 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 may be adjusted in response to revisions in reserves or changes in laws and regulations and could be impacted by the rate the markets transition to a lower carbon-based economy. 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 9 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 2033 to 2041.

• 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

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 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. These assumptions used by the Company are discussed in note 11 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 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, 2021 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.

There were no significant changes to the Company's internal controls over financial reporting during the interim period from October 1, 2021 to December 31, 2021 and year ended December 31, 2021. The CEO and the CFO have evaluated the effectiveness of Kelt's internal controls over financial reporting as at December 31, 2021 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:

- 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 emissions;
- Shifts in demand as global energy markets transition to a lower carbon-based economy.
- 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 $0.2 million in carbon tax expense in 2021 ($4.1 million in 2020). The majority of the 2020 carbon tax relates to Kelt's BC operations that were sold as part of the Inga Asset disposition;
- 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.

Indigenous Claims

Kelt is monitoring the impact of the recent Supreme Court of British Columbia judgement (the "Judgment") with respect to a claim brought forth by the Blueberry River First Nation ("Blueberry") against the province of British Columbia regarding the cumulative impact of industrial development within the Blueberry treaty claim area. The Judgement found that the Province of British Columbia breached the Treaty 8 rights of the Blueberry by allowing extensive industrial

development on the Blueberry's traditional territory without first assessing the cumulative impacts of this development on the ability of the members of the Blueberry to exercise their Treaty 8 rights to hunt, fish, and trap on their traditional territory. The Judgement calls for the province of British Columbia to pause some development in the Blueberry traditional area pending the results of an investigation into the cumulative impacts of industrial development in the Blueberry's traditional territory. The Judgement gives six months for the Government of British Columbia and the Blueberry to negotiate changes to the regulatory regime that recognizes and respects treaty rights.

On October 7, 2021 the Government of British Columbia and the Blueberry announced they reached a first step in the initial agreement in developing land management processes on the Blueberry traditional territory. As part of this agreement, a number of forestry and oil and gas projects, which were permitted or authorized prior to the Judgment, would continue to proceed. The announcement also states that the Province of British Columbia and the Blueberry are working to finalize an interim approach for reviewing new natural resource activities that balance Treaty 8 rights, the economy and the environment.

The Company does not currently expect that there will be an impact to Kelt's 2022 guidance as a result of the negotiations between the Blueberry and the Government of British Columbia. However any future delays in obtaining permits in the province of British Columbia in 2022, may result in a re-allocation of capital expenditures from the province of British Columbia to Alberta.

Royalty Risks

On October 7, 2021 the Province of British Columbia announced it was launching a comprehensive review of its royalty system. Any future changes to the British Columbia royalty system may have an impact on the Company's future cash flows.

COVID-19 Related Risks

The COVID-19 pandemic remains a risk and continues to cast uncertainty on the global economic recovery as risks surrounding the emergence of new COVID-19 variants and the impact, if any, on commodity prices and equity markets. The Company will continue to update its significant judgments, estimates and assumptions as the understanding of the longer-term impacts of COVID-19 on commodity prices, credit availability and equity markets becomes available.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require Kelt to incur costs to remedy such discharge.

The Company maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could be reduce or exceed the funds the Company has available and result in financial distress. No assurance can be given that the application of environmental laws to the business and operations of Kelt will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Kelt's financial condition, results of operations or prospects.

Climate Change Risks

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. The federal and

certain provincial governments have implemented legislation aimed at incentivizing the use of alternatives fuels and reducing carbon emissions. This legislation along with taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts the Corporation at a disadvantage with the Corporation's counterparts who operate in jurisdictions where there are less costly carbon regulations. Currently enacted carbon pricing costs are included in the Company's report on its oil and gas reserves.

Adverse impacts to the Corporation's business as a result of comprehensive carbon emission legislation or regulation applied to the Corporation's business in Alberta or any jurisdiction in which the Corporation operates, may include, but are not limited to: (i) increased compliance costs; (ii) permitting delays; (iii) substantial costs to generate or purchase emission credits or allowances adding costs to the products the Corporation produces; and (iv) reduced demand for crude oil and certain refined products. Emission allowances or offset credits may not be available for acquisition or may not be available on an economic basis. Required emission reductions may not be technically or economically feasible to implement, in whole or in part, and failure to meet such emission reduction requirements or other compliance mechanisms may have a material adverse effect on the Corporation's business resulting in, among other things, fines, permitting delays, penalties and the suspensions of operations.

In addition to climate policy risk, the industry faces physical risks attributable to a changing climate. Climate change is expected to increase the frequency of severe weather conditions, including high winds, heavy rainfall, extreme temperatures, flooding and wildfires, which may result in damage to the Corporation's assets, disruptions in operations or transportation interruptions which may lead to increased capital expenditures or reduced revenues. For further information on the Company's climate change initiatives, refer to the Company's ESG report which can be found on the Company's website.

Cybersecurity

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 maintains current insurance coverage against general risks associated with cybersecurity.

Risk Mitigation

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.

A more detailed description of the Company's risks is included in the Annual Information Form as at December 31, 2021, dated March 10, 2022 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 2021. 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 bring 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 AND OTHER FINANCIAL MEASURES

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 capital management measures, and supplementary financial measures that do not have standardized meanings under the applicable securities legislation. As these non-GAAP and other financial measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

NON-GAAP FINANICAL MEASURES

P&NG sales before marketing revenue and P&NG sales after cost of purchases

Throughout this MD&A, reference is made to “P&NG sales”, “P&NG sales before marketing revenue”, and “P&NG sales after cost of purchases”. P&NG sales is as reported in the consolidated financial statements in accordance with GAAP and is before realized gains or losses on financial instruments. P&NG sales before marketing revenue includes P&NG sales (in accordance with GAAP) prior to third party revenue and volumes related to the Company’s oil blending and third-party natural gas purchases and relates sales. P&NG sales after cost of purchases includes P&NG sales (in accordance with GAAP), net of the cost of third-party volumes purchases. P&NG sales before marketing revenue, and P&NG sales after cost of purchases are used by management to assess the Company’s revenue from its core operations, which the Company believes may be a better indicator of historical and future performance.

See the “Petroleum and Natural Gas Sales” section of this MD&A which provides a reconciliation of P&NG sales before marketing revenue, and “P&NG sales after cost of purchases to P&NG sales, which is a GAAP measure.

Net realized price

Net realized price is a non-GAAP measure and is calculated by deducting the cost of purchases from petroleum and natural gas sales (before royalties), divided by the Company’s production and reflects Kelt’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 Net Income (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 net realized prices based on petroleum and natural gas sales after cost of purchases is more appropriate and useful, because the cost of third-party volumes purchased to generate the incremental marketing revenue has been deducted. Net realized prices referenced throughout this MD&A are before financial instruments, except as otherwise indicated as being after financial instruments.

See the “Petroleum and Natural Gas Sales” section of this MD&A which provides a reconciliation of the net realized price to P&NG sales, which is a GAAP measure.

Operating netback

Operating netback is a non-GAAP measure 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 also presents operating netbacks on a per boe basis which allows management to better analyze performance against prior periods, on a comparable basis, and is a key industry performance measure of operational efficiency.

See the “Adjusted Funds from Operations” section of this MD&A which provides a reconciliation of the operating netback from P&NG sales, which is a GAAP measure.

Capital Expenditures

“Capital expenditures, before A&D” and “Capital expenditures, net of A&D” are measures the Company uses to monitor its investment in exploration and evaluation, investment in property plant and equipment, and net investment in acquisition and disposition activities. The most directly comparable GAAP measure is Cash provided by (used in) financing activities, and is calculated as follows:

	Three months ended December 31		Year ended December 31	
(CA$ thousands, except as otherwise indicated)	**2021**	2020	**2021**	2020
Cash (provided by) used in financing activities	**74,421**	17,208	**191,540**	(326,606)
Change in non-cash investing working capital	**(7,303)**	7,262	**21,971**	(27,351)
Capital expenditures, net of A&D	**67,118**	24,470	**213,511**	(353,957)
Property acquisitions [(1)]	**(36)**	(327)	**(252)**	(2,343)
Property dispositions [(1)]	**(57)**	102	**9,048**	508,389
Capital expenditures, before A&D	**67,025**	24,245	**222,307**	152,089

(1) Property acquisitions and property dispositions for the year ended December 31, 2021 includes $0.2 million of non-cash consideration. Property acquisitions and property dispositions for the year ended December 31, 2020 includes $2.3 million of non-cash consideration.

Net asset value

"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 Kelt 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 Kelt common shares as at the calculation date. Management believes that the "Net Asset Value" provides a useful measure to analyze the comparative change in the Company's estimated value on a normalized basis.

See the "Net Asset Value" section of this MD&A which provides a reconciliation of the calculation of the net asset value.

CAPITAL MANAGEMENT MEASURES

Adjusted funds from operations and annualized quarterly adjusted funds from operations

Management considers adjusted funds from operations and annualized quarterly adjusted funds from operations key capital management measures as it demonstrates the Company's ability to meet its financial obligations and cash flow available to fund its capital program. Adjusted funds from operations and annualized quarterly adjusted funds from operations are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

Adjusted funds from operations and annualized quarterly adjusted funds from operations is calculated as follows:

	Three months ended December 31		Year ended December 31	
(CA$ thousands, except as otherwise indicated)	**2021**	2020	**2021**	2020
Cash provided by operating activities	**52,056**	3,288	**159,714**	59,279
Change in non-cash working capital	**15,058**	6,620	**(1,903)**	(2,392)
Funds from operations	**67,114**	9,908	**157,811**	56,887
Settlement of decommissioning obligations	**1,041**	850	**3,583**	1,945
Adjusted funds from operations	**68,155**	10,758	**161,394**	58,832
Multiplier	**x4**	x4		
Annualized quarterly adjusted funds from operations	**272,620**	43,032		

Net debt (surplus) and net debt (surplus) to annualized quarterly adjusted funds from operations ratio

Management considers net debt (surplus) and a net debt (surplus) to annualized quarterly adjusted funds from operations ratio as key capital management measures to assess the Company's liquidity at a point in time and to monitor its capital structure and short-term financing requirements. The "net debt (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).

"Net debt (surplus)" is equal to bank debt, accounts payable and accrued liabilities, net of cash and cash equivalents, accounts receivables and accrued sales and prepaid expenses and deposits. The Company previously disclosed a "Net bank debt (surplus)" for its non-GAAP measure which was used to understand the Company's liquidity risk. In the third quarter of 2021, the Company replaced its "Net bank debt (surplus)" non-GAAP measure with a "Net debt (surplus)" non-GAAP measure. "Net bank debt (surplus)" was equal to bank debt, plus current liabilities, less current assets. The Company believes that using a "Net debt (surplus)" non-GAAP measure, which excludes non-cash derivative financial instruments, non-cash lease liabilities, and non-cash decommissioning obligations, provides investors with more useful information to understand the Company's cash liquidity risk.

See the "Capital Resources and Liquidity" section of this MD&A for calculation of the Net debt (surplus) and net debt (surplus) to annualized quarterly adjusted funds from operations ratio.

SUPPLEMENTARY FINANICAL MEASURES

"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.

P&NG sales, cost of purchases, realized gain (loss) on financial instruments, royalties, revenue after royalties and financial instruments, production expenses, transportation expenses, financing expenses, G&A expenses, realized gain (loss) on financial instruments, gain (loss) on derivative financial instruments, realized loss (gain) on foreign exchange, other income/expense, stock option expense, expiry of mineral leases, depletion and depreciation, impairment (reversal) on a $/BOE basis is calculated by dividing the amounts by the Company's total production over the period.

Adjusted funds from operations per share (basis) and net income (loss) and comprehensive income (loss) per share (basis) is calculated by dividing the amounts by the basic weighted average common shares outstanding.

Adjusted funds from operations per share (diluted) and net income (loss) and comprehensive income (loss) per share (diluted) is calculated by dividing the amounts by the diluted weighted average common shares outstanding.

"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.

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 10, 2022 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 10, 2022

[signed]

Sadiq H. Lalani
Vice President and Chief Financial Officer
March 10, 2022

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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of profit or loss and other comprehensive income for the years then ended;
- the consolidated statements of changes in 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, 2021. These matters were 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.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matter	How our audit addressed the key audit matter
The impact of crude oil and natural gas reserves on net property, plant and equipment (PP&E) *Refer to note 2(c) – Significant judgments and estimates, note 3 – Significant accounting policies and note 7 – Property, plant and equipment to the consolidated financial statements.* The Company has $1,484.9 million of PP&E as at December 31, 2021. Depletion and depreciation (D&D) expense was $91.3 million for the year then ended. PP&E assets are depleted using the unit-of-production method based on the ratio of production in the year to the related proved reserves, taking into account estimated future development capital expenditures necessary to bring those reserves into production. The recoverability of PP&E assets is assessed at the cash generating unit (CGU) level. On a quarterly basis, management reviews its CGUs for indicators of impairment. Impairment losses recognized in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. If indicators of impairment exist, an impairment test is performed by comparing the CGU's carrying value to its recoverable amount. If there is any indication that a previously recognized impairment charge may no longer exist or may have decreased, an impairment reversal test is performed. Management used the fair value less cost of disposal (FVLCD) methodology, based on the discounted after-tax cash flows from proved plus probable reserves less estimated selling costs, to determine the recoverable amount of the Company's CGU. The Company's proved plus probable reserves are prepared by the Company's independent qualified reserve evaluator (management's experts). As at June 30, 2021, management identified indicators of reversal of previous impairment and conducted an impairment reversal test for the Alberta CGU. As a result of this test, the Company recognized an impairment reversal of $70.1 million (before-tax) as at June 30, 2021. As at December 31, 2021, there	Our approach to addressing the matter included the following procedures, among others: • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved reserves volumes used to determine the D&D expense and the recoverable amount of the Alberta CGU. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. • Tested how management determined the D&D expense and recoverable amount of the Alberta CGU, which included the following: – Evaluated the appropriateness of the methods used by management in making these estimates. – Tested the data used in determining these estimates. – Evaluated the reasonableness of significant assumptions used, including future production volumes, long-term commodity price forecasts, future production costs and future development capital expenditures by considering the current and past performance, consistency with industry benchmark pricing forecasts and consistency with evidence obtained in other areas of the audit as applicable. – Professionals with specialized skill and knowledge were also used to assist in evaluating the reasonableness of the discount rate. – Recalculated the unit-of-production rates used to calculate D&D expense.

Key audit matter	How our audit addressed the key audit matter
were no indicators of impairment or impairment reversal for the CGUs. Significant assumptions developed by management used to estimate the recoverable amount of the Alberta CGU include proved plus probable reserves volumes, long-term commodity price forecasts, future production volumes, future production costs, future development capital expenditures and the discount rate. We determined that this is a key audit matter due to (i) the judgments by management, including the use of management's experts, when developing the after-tax future cash flows to determine the recoverable amount of the Alberta CGU and the proved plus probable 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.	

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 Scott Don Althen.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 9, 2022

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021 AND DECEMBER 31, 2020

(CA$ thousands)	[Notes]	**December 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**719**	31,570
Accounts receivable and accrued sales	[12]	**42,584**	20,954
Prepaid expenses, deposits and other	[5]	**2,080**	11,696
Derivative financial instruments	[12]	**5,338**	2,673
Total current assets		**50,721**	66,893
Deferred income tax asset	[13]	**10,443**	31,879
Exploration and evaluation assets	[6]	**29,529**	53,449
Property, plant and equipment	[7]	**822,804**	607,766
Total assets		**913,497**	759,987
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[12]	**72,453**	36,565
Derivative financial instruments	[12]	**1,109**	1,214
Decommissioning obligations	[9]	**2,396**	2,169
Lease liability	[10]	**609**	684
Total current liabilities		**76,567**	40,632
Bank debt	[8]	**1,150**	-
Decommissioning obligations	[9]	**112,657**	114,891
Lease liability	[10]	**399**	780
Total liabilities		**190,773**	156,303
SHAREHOLDERS' EQUITY			
Shareholders' capital	[11]	**1,144,596**	1,141,517
Contributed surplus and reserve		**(17,348)**	(19,053)
Deficit		**(404,524)**	(518,780)
Total shareholders' equity		**722,724**	603,684
Total liabilities and shareholders' equity		**913,497**	759,987
Commitments	[16]		

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 NET INCOME (LOSS) AND COMPREHENSIVE NET INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND DECEMBER 31, 2020

		Year ended December 31	
(CA$ thousands, except per share amounts)	[Notes]	**2021**	2020
Revenue			
Petroleum and natural gas sales	[14]	**316,763**	207,156
Royalties		**(27,414)**	(10,354)
		289,349	196,802
Expenses			
Production		**69,904**	87,447
Transportation		**25,855**	33,155
Cost of purchases		**6,348**	8,303
Financing	[15]	**2,443**	18,039
General and administrative	[17]	**9,251**	7,322
Share based compensation	[11]	**4,216**	5,153
Exploration and evaluation	[6]	**928**	3,219
Depletion and depreciation	[7]	**91,251**	112,623
Impairment (impairment reversal)	[7]	**(70,130)**	336,500
		140,066	611,761
Gain (loss) on derivative financial instruments	[12]	**(13,656)**	13,680
Foreign exchange gain (loss)		**17**	(29)
Unrealized loss on investment	[12]	**-**	(5,600)
Gain (loss) on sale of assets	[5]	**794**	(4,751)
Loss on redemption of convertible debentures		**-**	(3,481)
Premium on flow-through shares		**-**	1,346
Other		**(746)**	679
Net income (loss) before taxes		**135,692**	(413,115)
Deferred income tax recovery (expense)	[13]	**(21,436)**	88,308
Net income (loss) and comprehensive income (loss)		**114,256**	(324,807)
Net income (loss) per common share			
Basic	[11]	**0.61**	(1.73)
Diluted	[11]	**0.60**	(1.73)

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, 2021 AND DECEMBER 31, 2020

		Shareholders' capital		Contributed		Total
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	surplus and reserve	Retained earnings (deficit)	shareholders' equity
Balance at December 31, 2019		187,786	1,137,121	(20,086)	(193,973)	923,062
Loss and comprehensive loss		-	-	-	(324,807)	(324,807)
Share issue costs, net of tax	[11]	-	2	-	-	2
Exercise of stock options	[11]	277	397	(123)	-	274
Vesting of restricted share units	[11]	517	3,997	(3,997)	-	-
Share based compensation	[11]	-	-	5,153	-	5,153
Balance at December 31, 2020		188,580	1,141,517	(19,053)	(518,780)	603,684
Loss and comprehensive loss		-	-	-	114,256	114,256
Exercise of stock options	[11]	291	768	(200)	-	568
Vesting of restricted share units	[11]	293	2,311	(2,311)	-	-
Share based compensation	[11]	-	-	4,216	-	4,216
Balance at December 31, 2021		**189,164**	**1,144,596**	**(17,348)**	**(404,524)**	**722,724**

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

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND DECEMBER 31, 2020

		Year ended December 31	
(CA$ thousands)	[Notes]	**2021**	2020
Operating activities			
Net income (loss) and comprehensive income (loss)		**114,256**	(324,807)
Items not affecting cash:			
Accretion	[15]	**2,003**	5,532
Share based compensation		**4,216**	5,153
Exploration and evaluation		**928**	3,219
Depletion and depreciation		**91,251**	112,623
Impairment expense (reversal)		**(70,130)**	336,500
Unrealized gain on derivative financial instruments		**(2,770)**	(3,767)
Unrealized loss on investment in securities		**-**	5,600
Premium on flow-through shares		**-**	(1,346)
Loss on redemption of convertible debentures		**-**	3,481
(Gain) loss on sale of assets		**(794)**	4,751
Deferred income tax expense (recovery)		**21,436**	(88,308)
Other		**998**	201
Settlement of decommissioning obligations	[9]	**(3,583)**	(1,945)
Change in non-cash operating working capital	[18]	**1,903**	2,392
Cash provided by operating activities		**159,714**	59,279
Financing activities			
Increase (decrease) in bank debt	[8]	**1,150**	(300,000)
Increase in financing liability		**-**	28,024
Issue of common shares, net of costs	[11]	**-**	3
Proceeds on exercise of stock options	[11]	**568**	274
Redemption of convertible debentures		**-**	(89,910)
Repayment of lease liability principle	[10]	**(745)**	(1,070)
Cash provided by (used in) financing activities		**973**	(362,679)
Investing activities			
Exploration and evaluation assets		**(4,202)**	(2,853)
Property, plant and equipment		**(218,105)**	(149,236)
Property acquisitions	[5]	**(52)**	(15)
Property dispositions	[5]	**8,848**	506,061
Change in non-cash investing working capital	[18]	**21,971**	(27,351)
Cash provided by investing activities		**(191,540)**	326,606
Impact of foreign currency on cash balances		**2**	(1)
Net change in cash and cash equivalents		**(30,851)**	23,205
Cash and cash equivalents, beginning of year		**31,570**	8,365
Cash and cash equivalents, end of year		**719**	31,570

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

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in northwestern Alberta and northeastern British Columbia. 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. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated annual financial statements on March 9, 2022 for issue on March 10, 2022.

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 12 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 ("E&E") to property, plant and equipment ("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 and could be impacted by a shift in demand as global energy markets transition to a lower carbon-based economy. 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, 2021, 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.

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 future value of the decommissioning obligation can fluctuate in response to many factors including changes to 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 may be adjusted in response to revisions in reserves or changes in laws and regulations and could be impacted by the rate the markets transition to a lower carbon-based economy. 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 9 of these 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 2033 to 2041.

• 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

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 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. These assumptions used by the Company are discussed in note 11 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 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.

3. SIGNIFICANT 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 Net Income (Loss) and Comprehensive Net 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 Net Income (Loss) and Comprehensive Net Income (Loss). Transaction costs associated with the acquisition are expensed when incurred.

Principles of consolidation

As at December 31, 2021, 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 Net Income (Loss) and Comprehensive Net 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 and property, plant and equipment

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 Net Income (Loss) and Comprehensive Net 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

Net Income (Loss) and Comprehensive Net 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. The timing of when, or if the global energy markets transition to a lower carbon-based economy is highly uncertain and may impact the FVLCD.

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 Net Income (Loss) and Comprehensive Net 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 Net Income (Loss) and Comprehensive Net 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 Net Income (Loss) and Comprehensive Net 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 Net Income (Loss) and Comprehensive Net 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 Net Income 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.

4. 2019 Novel Coronavirus ("COVID-19")

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 in 2021, with the average global benchmark crude oil price rebounding above pre COVID-19 prices in the second half of 2021. This volatility in crude oil and natural gas prices in 2020 and 2021 has had a significant impact on Kelt's revenue from commodity sales.

The Company will continue to update its significant judgments, estimates and assumptions on the longer-term impacts of COVID-19 and the emergence of new COVID-19 variants as the impacts, if any, on commodity prices and equity markets becomes available.

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, 2021 and the prior year ended December 31, 2020:

Acquisitions	**December 31, 2021**	December 31, 2020
Exploration and evaluation assets	**242**	2,113
Property, plant and equipment	**96**	1,245
Decommissioning obligations	**(86)**	(1,015)
Total assets (liabilities) acquired	**252**	2,343
Consideration		
Cash consideration	**(52)**	(15)
Non-cash consideration	**(200)**	(2,328)
Total consideration	**(252)**	(2,343)

Dispositions	December 31, 2021	December 31, 2020
Exploration and evaluation assets	**(1,427)**	(20,321)
Property, plant and equipment	**(10,808)**	(565,651)
Decommissioning obligations	**3,981**	42,917
Financing and other liabilities	**-**	29,915
Carrying value of net (assets) liabilities disposed	**(8,254)**	(513,140)
Consideration		
Cash consideration, after closing adjustments [1]	**8,848**	496,061
Deposit held in trust	**-**	10,000
Non-cash consideration	**200**	2,328
Total consideration	**9,048**	508,389
Gain (loss) on sale of assets	**794**	(4,751)

(1) The amounts reported in the table above were estimated based on information available at the time of preparation of these 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.

In the third quarter of 2021, the Company disposed of non-core assets for net proceeds of $8.9 million after closing adjustments. The non-core assets had a net carrying value of $8.7 million (property plant and equipment costs of $21.7 million, accumulated depletion and depreciation of $10.9 million, exploration and evaluation costs of $1.4 million and abandonment obligations of $3.5 million), resulting in a gain on sale of $0.2 million.

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 Asset Disposition") had an effective date of July 1, 2020.

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback of $15.0 million held in trust. The holdback was released to Kelt, in three equal amounts over twelve months, with the final payment being received in August 2021.

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, 2021	December 31, 2020
Balance, beginning of year	**53,449**	73,891
Additions	**4,202**	2,853
Property acquisitions [note 5]	**242**	2,113
Property dispositions [note 5]	**(1,427)**	(20,321)
Transfers to property, plant and equipment	**(26,009)**	(1,868)
Exploration and evaluation expense	**(928)**	(3,219)
Balance, end of year	**29,529**	53,449

The Company concluded that there are no indicators of potential impairment of its E&E assets at December 31, 2021.

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**December 31, 2021**	December 31, 2020
Development and production ("D&P") assets	**821,017**	606,332
Right-of-use ("ROU") assets	**1,009**	1,243
Corporate assets	**778**	191
Total net carrying value of property, plant and equipment	**822,804**	607,766

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
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)
Change in decommissioning obligations	(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**
Additions	**217,018**	**1,087**	**289**	**218,394**
Property acquisitions [note 5]	**96**	**-**	**-**	**96**
Property dispositions [note 5]	**(21,692)**	**-**	**-**	**(21,692)**
Provision	**(1,000)**	**-**	**-**	**(1,000)**
Change in decommissioning obligations	**3,468**	**-**	**-**	**3,468**
Transfers from E&E	**26,009**	**-**	**-**	**26,009**
Balance at December 31, 2021	**1,475,797**	**6,325**	**2,792**	**1,484,914**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
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**
Depletion and depreciation expense	**90,228**	**500**	**523**	**91,251**
Impairment reversal	**(70,130)**	**-**	**-**	**(70,130)**
Dispositions [note 5]	**(10,884)**	**-**	**-**	**(10,884)**
Balance at December 31, 2021	**654,780**	**5,547**	**1,783**	**662,110**

Future development capital expenditures required to develop proved reserves in the amount of $754.6 million (December 31, 2020 – $536.7 million) are included in the depletion calculation for development and production assets.

Based on its assessment as of December 31, 2021, the Company determined that there were no potential indicators of impairment for the Alberta CGU and BC CGU and there are no previous impairments available for reversals.

In the second quarter of 2021, as a result of increased forward commodity price forecasts and an increase in the Company's market capitalization since December 31, 2020, an impairment reversal test was performed on the Alberta CGU. Based on the impairment reversal test performed, it was determined that the recoverable amount of the Alberta CGU was in excess of its carrying value resulting in an impairment reversal of $70.1 million (before-tax). As at June

30, 2021, the net carrying amount of PP&E for the Alberta CGU was $639.8 million subsequent to the impairment reversal being taken.

Recoverable amounts for the Alberta CGU in the second quarter of 2021 were estimated based on the fair value less cost of disposal ("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 as of December 31, 2020, with the information rolled-forward to June 30, 2021. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at June 30, 2021, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on the independent qualified reserve evaluator December 31, 2020 evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. The increase in commodity prices from December 31, 2020 resulted in the addition of wells which were previously uneconomic in the December 31, 2020 reserve report. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at June 30, 2021 was 16.0% and was based on the risks specific to the assets in the Alberta CGU.

The recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions. As at June 30, 2021, holding all other variables in the FVLCD calculation for the Alberta CGU constant:

- if the discount rate increased (decreased) by 1%, the recoverable amount of the Alberta CGU would decrease by $34.1 million and increase by $37.1 million; and
- if the forecast combined average realized price decreased (increased) by 5%, the recoverable amount of the Alberta CGU would decrease (increase) by $88.5 million.

Forecast future prices used in the impairment evaluations as at June 30, 2021 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 June 30, 2021	2021	2022	2023	2024	2025[(1)]
WTI Cushing Oklahoma (US$/bbl)	**71.00**	**69.00**	**67.00**	**65.00**	**66.30**
Canadian Light Sweet 40 API ($/bbl)	**83.75**	**81.10**	**78.45**	**75.84**	**77.36**
NYMEX Henry Hub (US$/MMBtu)	**3.40**	**3.25**	**3.00**	**3.00**	**3.06**
AECO-C Spot ($/MMBtu)	**3.63**	**3.29**	**2.82**	**2.67**	**2.72**

(1) Prices escalate at 2% in years 2026 to 2031

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

8. BANK DEBT

The Company has a $100.0 million demand and revolving term facility ("the Credit Facility") with a syndicate of financial institutions. As at December 31, 2021, $1.2 million was drawn under the Credit Facility and had outstanding letters of credit of $1.4 million. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

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 $800.0 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 175 basis points to 575 basis points depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.5 times to greater than five times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 2.75% to 6.75%, depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.5 times to greater than five times.

9. DECOMMISSIONING OBLIGATIONS

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

	December 31, 2021	December 31, 2020
Balance, beginning of year	**117,060**	160,023
Obligations incurred	**2,395**	1,265
Obligations acquired	**86**	1,015
Obligations disposed	**(3,981)**	(42,917)
Obligations settled	**(3,583)**	(1,945)
Changes in discount rate	**(26,279)**	35,862
Changes in inflation rate	**16,569**	(36,101)
Revisions to estimates	**10,783**	(2,034)
Accretion expense	**2,003**	1,892
Balance, end of year	**115,053**	117,060
Decommissioning obligations – current	**2,396**	2,169
Decommissioning obligations – non-current	**112,657**	114,891
Key assumptions		
Risk free rate	**1.7%**	1.2%
Inflation rate	**1.7%**	1.2%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2021 the undiscounted amount of the estimated cash flows required to settle the obligation is $115.1 million (December 31, 2020 – $117.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.7%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $191.6 million at December 31, 2021 (December 31, 2020 – $174.8 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 Net Income (Loss) and Comprehensive Net Income (Loss) (note 15).

10. LEASE LIABILITY

	December 31, 2021	December 31, 2020
Balance, beginning of year	**1,464**	2,668
Additions	**289**	884
Liabilities disposed	**-**	(1,018)
Interest expense	**67**	148
Lease payments	**(812)**	(1,218)
Balance, end of year	**1,008**	1,464
Lease liability – current	**609**	684
Lease liability – non-current	**399**	780

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, 2021 was 5.9% (December 31, 2020 – 4.8%). Payments under the Company's short-term leases were $5.0 million for the year ended December 31, 2021 (December 31, 2020 – $4.0 million), which primarily related to short term drilling rig rentals.

11. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of December 31, 2021 (December 31, 2020 – nil).

	Number of Shares (000s)	Amount ($ thousands)
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**
Issued on exercise of stock options	**291**	**568**
Transfer from contributed surplus on exercise of stock options	**-**	**200**
Released upon vesting of restricted share units	**293**	**2,311**
Balance at December 31, 2021	**189,164**	**1,144,596**

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, 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**
Granted	**2,642**	**2.79**
Exercised [1]	**(291)**	**1.95**
Forfeited	**(137)**	**4.66**
Expired	**(1,658)**	**4.72**
Balance at December 31, 2021	**10,523**	**3.52**

(1) The average share price on the date stock options were exercised during the year ended December 31, 2021 was $3.87 per common share ($1.64 per common share on average during the year ended December 31, 2020).

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	
	2021	2020
Risk free interest rate	**0.60%**	0.52%
Expected life (years)	**3.6**	3.5
Expected volatility [1]	**79.5%**	67.7%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**5.2%**	4.4%
Fair value of options granted during the year ($/share)	**1.51**	0.48

(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, 2021:

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	6,340	3.5	2.14	1,727	2.09
$3.51 to $6.50	3,605	1.4	5.30	3,445	5.35
$6.51 to $9.50	578	1.0	7.59	578	7.59
Total	**10,523**	**2.6**	**3.52**	**5,750**	**4.59**

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 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, 2019	865
Granted	10
Released upon vesting	(517)
Forfeited	(12)
Balance at December 31, 2020	**346**
Granted	**709**
Released upon vesting	**(293)**
Forfeited	**(3)**
Balance at December 31, 2021	**759**

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	
	2021	2020
Stock options	**3,054**	2,945
Restricted share units	**1,162**	2,208
Share base compensation expense	**4,216**	5,153

Per share amounts

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

	Year ended December 31	
(000s of common shares)	**2021**	2020
Weighted average common shares outstanding, basic	**188,800**	188,093
Effect of dilution from stock options and RSUs	**2,007**	-
Weighted average common shares outstanding, diluted	**190,807**	188,093

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted profit per common share. For the year ended December 31, 2021, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible. 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.

12. 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. Net income (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 objective of the Company’s 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 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, 2021, the following commodity price risk management contracts are outstanding:

Contract Type[(1)(2)(3)]	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
NYMEX fixed price swap	15,000 MMBtu/d	CAD$5.37/MMBtu	Jan – Mar 2022
NYMEX fixed price swap	25,000 MMBtu/d	CAD$5.15/MMBtu	Apr – Oct 2022
NYMEX costless collar	10,000 MMBtu/d	Ceiling CAD$4.68/MMBtu Floor CAD$3.60/MMBtu	Jan – Mar 2022
Crude oil derivative contracts			
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.75/bbl	Jan – Dec 2022
WTI fixed price swap	5,000 bbl/d	CAD$96.26/bbl	Jan – Mar 2022
WTI fixed price swap	3,000 bbl/d	CAD$95.67/bbl	Apr – Jun 2022

(1) West Texas Intermediate ("WTI")
(2) NYMEX Henry Hub ("NYMEX")
(3) Mixed Sweet Blend ("MSW")

Subsequent to December 31, 2021, the Company entered into the following commodity price risk management contracts:

Contract Type	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
NYMEX fixed price swap	20,000 MMBtu/d	CAD$6.12/MMBtu	Apr – Oct 2022

(1) NYMEX Henry Hub ("NYMEX")

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. Based on bank debt balance as of December 31, 2021 of $1.2 million, an increase (decrease) in the market rate of interest by 25 basis points would have an insignificant impact. As at December 31, 2021, 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. As at December 31, 2021, 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	
	2021	2020
Realized gain (loss)	**(16,426)**	9,913
Unrealized gain	**2,770**	3,767
Gain (loss) on derivative financial instruments	**(13,656)**	13,680

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. 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 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.

The Company's financial derivative contracts are classified as Level 2 and investment in securities are classified as Level 3.

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 financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at December 31, 2021:

	Carrying Value ("CV")			Fair Value		
Balance as at December 31, 2021	Gross	Netting[1]	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	5,338	-	5,338	-	5,338	-
Financial liabilities						
Derivative financial instrument	1,109	-	1,109	-	1,109	-

	Carrying Value ("CV")			Fair Value		
Balance as at December 31, 2020	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	-

(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.

Credit risk

As at December 31, 2021, 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, 2021**	December 31, 2020
Joint venture partners	**2,789**	3,510
Oil and gas marketers	**38,534**	16,650
GST input tax credits	**1,740**	1,011
Interest receivable	**-**	104
Risk management contracts	**-**	86
Other	**138**	346
ECL provision	**(617)**	(753)
Total	**42,584**	20,954

During the year ended December 31, 2021, sales to five oil and gas marketers accounted for approximately 96% of total sales. During the period ended December 31, 2020, sales to four oil and gas marketers accounted for approximately 82% of total sales. Kelt has mitigated some of its credit risk 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, 2021, the collection risk on outstanding accounts receivable balances is considered low as less than 1% of the accounts receivable balance is outstanding for more than 90 days (December 31, 2020 – 5.0%).

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, 2021 include accounts payable, derivative financial instruments, lease liabilities and bank debt. 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 sales. 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 sales.

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.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2021:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	72,453	-	-	**72,453**
Derivative financial instruments	1,109	-	-	**1,109**
Lease liability	609	399	-	**1,008**
Bank debt and estimated interest (1)	47	1,150	-	**1,197**
Total	**74,218**	**1,549**	**-**	**75,767**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 4.1% for the year ended December 31, 2021, applied to the principal balance outstanding as at that date.

Capital management

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

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.

Adjusted funds from operations and annualized quarterly adjusted funds from operations

Management considers adjusted funds from operations and annualized quarterly adjusted funds from operations key capital management measures as it demonstrates the Company's ability to meet its financial obligations and cash flow available to fund its capital program. Adjusted funds from operations and annualized quarterly adjusted funds from operations are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

Adjusted funds from operations and annualized quarterly adjusted funds from operations is calculated as follows:

	Three months ended December 31		Year ended December 31	
	2021	2020	**2021**	2020
Cash provided by operating activities	**52,056**	3,288	**159,714**	59,279
Change in non-cash working capital	**15,058**	6,620	**(1,903)**	(2,392)
Settlement of decommissioning obligations	**1,041**	850	**3,583**	1,945
Adjusted funds from operations	**68,155**	10,758	**161,394**	58,832
Multiplier	**x4**	x4		
Annualized quarterly adjusted funds from operations	**272,620**	43,032		

Net debt (surplus) and net debt (surplus) to annualized quarterly adjusted funds from operations ratio

Management considers net debt (surplus) and a net debt (surplus) to annualized quarterly adjusted funds from operations ratio as key capital management measures to assess the Company's liquidity at a point in time and to monitor its capital structure and short-term financing requirements. The Company targets a net debt to annualized quarterly adjusted funds from operations ratio of less than 2.0 times. Net debt (surplus) and a net debt (surplus) to annualized quarterly adjusted funds from operations ratio are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

Net debt (surplus) and net debt (surplus) to annualized quarterly adjusted funds from operations ratio is calculated as follows:

	December 31, 2021	December 31, 2020
Bank debt	**1,150**	-
Accounts payable and accrued liabilities	**72,453**	36,565
Cash and cash equivalents	**(719)**	(31,570)
Accounts receivable and accrued sales	**(42,584)**	(20,954)
Prepaid expenses and deposits	**(2,080)**	(11,696)
Net debt (surplus)	**28,220**	(27,655)
Annualized quarterly adjusted funds from operations	**272,620**	43,032
Net debt (surplus) to annualized quarterly adjusted funds from operations ratio	**0.1**	(0.6)

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at December 31, 2021, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

13. 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 pools and losses available to reduce taxable income as of December 31, 2021 are estimated to be approximately $774.2 million (December 31, 2020 – $717.6 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 Net Income (Loss) and Comprehensive Net Income (Loss):

	Year ended December 31	
	2021	2020
Net income (Loss) before income taxes	**135,692**	(413,115)
Canadian statutory tax rate	**23.1%**	26.0%
Expected income tax expense (recovery)	**31,293**	(107,457)
Increase (decrease) resulting from:		
Non-deductible expenses [(1)]	**976**	1,243
Amortization of common control reserve	**(329)**	(1,384)
Qualifying expenditures on flow-through shares	**-**	4,704
Premium on flow-through shares	**-**	(323)
Permanent differences	**-**	3,295
Unrecognized deferred tax assets	**(10,504)**	10,505
Change in tax rates	**-**	1,071
Other	**-**	38
Deferred income tax expense (recovery)	**21,436**	(88,308)

(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 8.0% 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:

Deferred income tax asset (liability)	Balance at December 31, 2020	Recognized in profit and CI[1]	Recognized in balance sheet	**Balance at December 31, 2021**
Derivative financial instruments	(336)	(637)	-	**(973)**
PP&E and E&E	(59,382)	(42,259)	-	**(101,641)**
Decommissioning obligations	27,177	(463)	-	**26,714**
Lease liability	286	(100)	-	**186**
Share and debt issue costs	134	(80)	-	**54**
Reserve from common control transaction	(330)	329	-	**(1)**
Non-capital losses [2]	64,330	21,774	-	**86,104**
Net deferred tax asset (liability)	31,879	(21,436)	-	**10,443**

Deferred income tax asset (liability)	Balance at December 31, 2019	Recognized in profit and CI[1]	Recognized in balance sheet	Balance at December 31, 2020
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

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

(2) The Company's non-capital losses expire in years 2033 to 2041.

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.

14. PETROLEUM AND NATURAL GAS SALES

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. Sales are typically collected on the 25th day of the month following the prior month's production, with sales 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 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, 2021, transportation costs incurred in relation to these contracts was $9.9 million (December 31, 2020 – $16.7 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, 2021	December 31, 2020
Oil production	**138,255**	**104,560**
Oil treating and other	**722**	**756**
NGLs production	**46,083**	**22,904**
Gas production	**123,728**	**70,807**
Gas processing and other	**1,358**	**1,125**
Marketing revenue	**6,617**	**7,004**
Total petroleum and natural gas sales	**316,763**	**207,156**

Included in accounts receivable at December 31, 2021 is $38.5 million (December 31, 2020 - $16.7 million) of accrued oil and gas sales related to December 2021 production.

15. FINANCING EXPENSES

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

	Year ended December 31	
	2021	2020
Total interest expense	**440**	12,507
Accretion of convertible debentures	**-**	3,640
Accretion of decommissioning obligations [note 9]	**2,003**	1,892
Total financing expense	**2,443**	18,039

16. COMMITMENTS

As of December 31, 2021, the Company is committed to future payments under the following agreements:

	2022	2023	2024	2025	2026	Thereafter
Firm processing commitments	16,282	16,862	17,151	15,048	14,797	43,013
Firm transportation commitments (1)	24,755	23,343	20,881	17,886	16,015	22,448
Total commitments	**41,037**	**40,205**	**38,032**	**32,934**	**30,812**	**65,461**

(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, 2021 of CA$/US$1.2678.

17. GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Year ended December 31	
	2021	2020
Salaries and benefits (1) (2)	**9,713**	7,154
Other G&A expenses	**3,745**	4,586
G&A expenses before recoveries	**13,458**	11,740
Overhead recoveries	**(4,207)**	(4,418)
G&A expense	**9,251**	7,322

(1) Refer to additional information regarding salaries and benefits paid to key management personnel in note 19 of these financial statements.

(2) 2021 salaries and benefits include $0.5 million (2020 - $1.5 million) received as part of the Canada Emergency Wage Subsidy program.

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
Changes in non-cash working capital	**2021**	2020
Accounts receivable and accrued sales	**(21,630)**	24,018
Prepaid expenses and deposits	**9,616**	(9,470)
Accounts payable and accrued liabilities	**35,888**	(39,507)
Change in non-cash working capital	**23,874**	(24,959)
Relating to:		
Operating activities	**1,903**	2,392
Investing activities	**21,971**	(27,351)
Change in non-cash working capital	**23,874**	(24,959)

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

	Year ended December 31	
Cash outlays in respect of interest and taxes	**2021**	2020
Interest and standby fees on bank debt	**116**	7,352
Interest on convertible debentures (1)	**-**	3,744
Taxes (2)	**-**	-

(1) Interest on the Debentures was paid semi-annually on May 31st and early on October 3rd, 2020 upon redemption of the convertible debentures.

(2) Kelt was not required to pay cash income taxes as the Company had sufficient income tax deductions available to shelter taxable income (note 13).

19. RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where the corporate secretary 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, 2021, the Company incurred $0.2 million (December 31, 2020 – $0.8 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	
	2021	2020
Salaries, bonuses and other benefits	**2,086**	1,831
Share based compensation	**2,959**	594
Total compensation	**5,045**	2,425

During the year ended December 31, 2021, key management personnel were granted 1,219,000 stock options with an exercise price of $2.74 per share. 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.

ABBREVIATIONS

bbls	barrels
mbbls	thousand barrels
bbls/d	barrels per day
BOE	barrels of oil equivalent
mBOE	thousand barrels of oil equivalent
BOE/d	barrels of oil equivalent per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mmcf/d	million cubic feet per day
MMBtu	million British Thermal Units
GJ	gigajoules
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 31st
Q2	Second quarter ended June 30th
Q3	Third quarter ended September 30th
Q4	Fourth quarter ended December 31st
YTD	Year to date
BT	Before income taxes
AT	After income taxes
1P	Proved reserves
2P	Proved plus probable reserves

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

Geri L. Greenall [2, 3, 6, 7]
Independent

William C. Guinan [1, 5]
Independent

Michael R. Shea [3, 4, 6]
Independent

Neil G. Sinclair [2, 4, 5, 6]
Independent

Janet E. Vellutini [2, 3, 4]
Independent

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

1 board chair

2 member, audit committee

3 member, reserves committee

4 member, compensation committee

5 member, health, safety and environment committee

6 member, nominating committee

7 lead director

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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

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