kelt exploration

FIRST QUARTER REPORT

AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2019

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

(CA$ thousands, except as otherwise indicated)	Three months ended March 31 **2019**	2018	%
FINANCIAL			
Petroleum and natural gas revenue, before royalties	**102,585**	89,993	14
Cash provided by operating activities	**53,813**	53,663	-
Adjusted funds from operations [(1)]	**51,441**	45,724	13
Basic ($/ common share) [(1)]	**0.28**	0.25	12
Diluted ($/ common share) [(1)]	**0.28**	0.25	12
Profit (loss) and comprehensive income (loss)	**9,369**	(23)	-
Basic ($/ common share)	**0.05**	-	-
Diluted ($/ common share)	**0.05**	-	-
Total capital expenditures, net of dispositions	**107,962**	92,037	17
Total assets	**1,515,227**	1,337,688	13
Net debt [(1)]	**258,351**	173,587	49
Convertible debentures	**79,426**	75,443	5
Shareholders' equity	**904,835**	857,019	6
Weighted average shares outstanding (000s)			
Basic	**184,017**	180,125	2
Diluted	**184,617**	181,706	2
OPERATIONS			
Average daily production			
Oil (bbls/d)	**7,806**	8,494	-8
NGLs (bbls/d)	**3,903**	3,439	13
Gas (mcf/d)	**92,089**	90,271	2
Combined (BOE/d)	**27,057**	26,978	-
Production per million common shares (BOE/d) [(1)]	**147**	150	-2
Average realized prices, before financial instruments [(1)]			
Oil ($/bbl)	**67.17**	68.16	-1
NGLs ($/bbl)	**25.20**	30.56	-18
Gas ($/mcf)	**5.18**	3.20	62
Operating netbacks ($/BOE) [(1)]			
Petroleum and natural gas revenue	**42.12**	37.06	14
Cost of purchases	**(1.48)**	(0.99)	49
Average realized price, before financial instruments [(1)]	**40.64**	36.07	13
Realized gain (loss) on financial instruments	**(0.33)**	-	-
Average realized price, after financial instruments [(1)]	**40.31**	36.07	12
Royalties	**(2.01)**	(2.75)	-27
Production expense	**(10.14)**	(9.45)	7
Transportation expense	**(4.77)**	(3.40)	40
Operating netback [(1)]	**23.39**	20.47	14
Undeveloped land			
Gross acres	**695,321**	766,196	-9
Net acres	**600,275**	648,802	-7

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

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. ("Kelt" or the "Company") reports its financial and operating results to shareholders for the first quarter ended March 31, 2019.

Average production for the three months ended March 31, 2019 was 27,057 BOE per day, relatively unchanged compared to average production of 26,978 BOE per day during the first quarter of 2018. Quarter-over-quarter, daily average production in the first quarter of 2019 was 6% lower than average production of 28,711 BOE per day in the fourth quarter of 2018. Production for the three months ended March 31, 2019 was weighted 43% oil and NGLs and 57% gas. However, operating income was weighted 66% oil and NGLs and 34% gas.

Kelt's realized average oil price during the first quarter of 2019 was $67.17 per barrel, down 1% from $68.16 per barrel in the first quarter of 2018. The realized average NGLs price during the first quarter of 2019 was $25.20 per barrel, down 18% from $30.56 per barrel in the same quarter of 2018. Kelt's realized average gas price for the first quarter of 2019 was $5.18 per Mcf, up 62% from $3.20 per Mcf in the corresponding quarter of the previous year. Kelt benefits with premium natural gas price realizations compared to AECO as a result of its gas market diversification portfolio.

For the three months ended March 31, 2019, revenue was $102.6 million and adjusted funds from operations was $51.4 million ($0.28 per share, diluted), compared to $90.0 million and $45.7 million ($0.25 per share, diluted) respectively, in the first quarter of 2018. Funds from operations for the first quarter of 2019 was a record high quarterly amount reported by the Company for any given quarter since Kelt commenced operations in February 2013. At March 31, 2019, bank debt, net of working capital was $258.4 million, up from $173.6 million at March 31, 2018. The Company and its lenders have amended Kelt's credit facility increasing the amount of borrowings available by 26% to $315.0 million, up from the previous borrowing base amount of $250.0 million.

Net capital expenditures incurred during the three months ended March 31, 2019 were $108.0 million. During the first quarter of 2019, the Company spent $67.4 million on drill and complete operations, $37.1 million on equipment, facilities and pipelines and $0.5 million on land and seismic. Asset acquisitions, net of dispositions were $3.0 million. Kelt was ahead of schedule with its pipeline construction projects at Inga/Fireweed during the quarter.

During the first quarter of 2019, Kelt drilled four horizontal Upper Montney (D3/D4) wells at Wembley/Pipestone. These wells are expected to be completed prior to August 2019 in anticipation of the start-up of the Tidewater Pipestone Sour Deep-Cut Gas Plant in late August/early September. Kelt plans to drill and complete three additional wells at Wembley/Pipestone prior to the Gas Plant start-up.

At Fireweed, the Company completed five Montney wells that were previously drilled from the same pad in 2018. Three of these wells were in the Upper Montney and two of the wells were in the Middle Montney. Kelt expects to have these five wells on production by the start of the third quarter in 2019. Also at Fireweed, Kelt drilled a Doig well located at D-002-A/94-A-13. This well is expected to be completed during the month of May with production start-up expected during the month of June 2019. Two Inga Doig wells that commenced production in 2017 and two additional Doig wells that commenced production in late 2018 are all expected to payback the drill, complete and tie-in capital costs in less than a year.

At Inga, Kelt has drilled and completed the first six wells on its 24-well pad Montney cube development program. The next six wells have also now been drilled and are expected to be completed by July 2019. The average drill and complete cost per well for the first six wells was $5.0 million, 7% below budgeted costs of $5.4 million per well. All six wells are currently tied-in to Kelt's Inga 2-10 facility. After flowing frac fluid back on clean-up, aggregate sales production volumes from these six wells for seven days (168 producing hours) was 7,453 BOE per day (83% oil and NGLs). The Company completed three wells using the open hole ball-drop completion method and three wells using the plug and perf completion method, as summarized in the table below:

Well	Montney Zone	Completion Technology	Drill & Complete	Total Proppant	Proppant per Metre	Total Frac Fluid	Avg. Frac Intensity
			(MM)	(tonnes)	(tonnes)	(m3)	(m3/min)
03/16-33 (5-9)	IBZ	Open Hole Ball-Drop	$ 5.1	2,471	1.03	18,587	10.9
04/16-33 (A5-9)	Middle	Open Hole Ball-Drop	$ 5.0	3,210	1.42	21,311	11.5
05/16-33 (B5-9)	Upper	Open Hole Ball-Drop	$ 5.2	3,371	1.48	22,604	11.5
06/16-33 (C5-9)	IBZ	Plug and Perf	$ 4.7	2,721	1.25	22,152	10.5
03/15-33 (D5-9)	Upper	Plug and Perf	$ 5.0	3,323	1.52	25,131	11.4
04/15-33 (E5-9)	Middle	Plug and Perf	$ 4.7	3,348	1.53	23,261	11.2

At Stoddart, the Company drilled and completed a Middle Montney well located at 00/16-08-087-21W6. This is the first Montney test on the south-east portion of Kelt's 220-section contiguous land block at Inga/Fireweed/Stoddart. Initial production results from the well are very encouraging. The well was drilled with a horizontal lateral of approximately 2,614 metres and was completed using the open hole ball-drop hydraulic fracturing method with 3,082 tonnes (1.18 tonnes per metre) of proppant. Frac fluid was pumped at an average rate of 10.4 cubic metres per minute. The well was flowed back to clean up for 13 days. The well was shut in for two weeks for tie-in, after which it was brought on production with the average sales volumes in the last six days (144 producing hours) of approximately 945 BOE per day (67% oil and NGLs). Kelt is pleased with the initial results from this well and will monitor the well for a longer term production profile, as this could unlock a significant amount of additional drilling inventory on the Company's south-east portion of its Inga/Fireweed/Stoddart land block.

The amount of Kelt's 2019 capital expenditure budget of $270.0 million, previously approved by the Company's Board of Directors in November 2018, remains unchanged. In addition, Kelt's production guidance for 2019 remains unchanged at 33,500 to 34,500 BOE per day. However, the Company has made changes to its forecasted commodity prices as outlined in the table below:

Average Commodity Prices	**Current 2019 Forecast**	**Previous 2019 Budget**	**Change**
WTI crude oil (US$/bbl)	60.00	67.50	− 11%
WTI differential to MSW Edmonton (CA$/bbl)	(7.23)	(19.43)	− 63%
MSW Edmonton (CA$/bbl)	73.17	66.97	+ 9%
NYMEX natural gas (US$/MMBtu)	2.85	3.00	− 5%
AECO gas daily index (US$/MMBtu)	1.30	1.60	− 19%
STATION 2 gas monthly index (US$/MMBtu)	0.90	1.30	− 31%
Exchange rate (CA$/US$)	1.340	1.280	+ 5%
Exchange rate (US$/CA$)	0.746	0.781	− 4%

Forecasted 2019 funds from operations remains unchanged from the original 2019 budgeted amount of $240.0 million. Bank debt, net of working capital at the end of 2019 is forecasted to be $235.0 million or 0.9 times forecasted 2019 funds from operations.

The Company is well positioned financially to execute its capital program during the remainder of 2019 and expects to exit 2019 with six to nine horizontal wells that will be drilled and awaiting production start-up in early 2020.

Management looks forward to updating shareholders with 2019 second quarter results on or about August 8, 2019.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
May 8, 2019

MANAGEMENT’S DISCUSSION & ANALYSIS

INTRODUCTION

Kelt Exploration Ltd. (“Kelt” or the “Company”) is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in northwestern Alberta and northeastern British Columbia (“BC”). The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012 and was inactive until February 26, 2013. Kelt’s land holdings are located in two core areas, namely: (a) Grande Prairie, Alberta (including Pouce Coupe, Wembley, Progress and La Glace), held directly by Kelt; and (b) Fort St. John, BC (including Inga, Fireweed, Stoddart and Oak), held by the Company’s wholly-owned subsidiary, Kelt Exploration (LNG) Ltd. (“Kelt LNG”). The head office of the Company is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2. The Company’s common shares and 5% convertible debentures are listed on the Toronto Stock Exchange (“TSX”) under the symbol “KEL” and “KEL.DB”, respectively. Additional information relating to Kelt can be found on SEDAR at www.sedar.com.

This Management’s Discussion and Analysis (“MD&A”) is dated May 8, 2019 and should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and related notes as at and for the three months ended March 31, 2019 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2018. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the CPA Canada Handbook – Accounting (“CPA Handbook”). The CPA Handbook incorporates International Financial Reporting Standards (“IFRS”) and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company’s Board of Directors approved and authorized the consolidated interim financial statements on May 7, 2019 for issue on May 8, 2019.

GENERAL ADVISORY

This MD&A uses “funds flow”, “adjusted funds from operations”, “funds flow per common share”, “netback”, “operating netback”, “Kelt revenue”, “operating income”, “net debt”, “total revenue”, “average realized prices”, “net debt to trailing adjusted funds from operations ratio” and “debt to cash flow” 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 reconciliations to GAAP measures, see “*Non-GAAP Financial Measure and Other Key Performance Indicators*” in this MD&A.

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

BASIS OF PRESENTATION

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

FINANCIAL AND OPERATING SUMMARY

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%
FINANCIAL PERFORMANCE			
Petroleum and natural gas revenue, before royalties	**102,585**	89,993	14
Cash provided by operating activities	**53,813**	53,663	-
Adjusted funds from operations (1)	**51,441**	45,724	13
Diluted ($/ common share) (1)	**0.28**	0.25	12
Profit (loss) and comprehensive income (loss)	**9,369**	(23)	-
Diluted ($/ common share)	**0.05**	-	-
Total capital expenditures, net of dispositions	**107,962**	92,037	17
Net debt (1)	**258,351**	173,587	49
OPERATIONAL PERFORMANCE			
Average daily production (BOE/d)	**27,057**	26,978	-
Average realized price, before financial instruments (1)	**40.64**	36.07	13
Average realized price, after financial instruments (1)	**40.31**	36.07	12
Operating netback (1)	**23.39**	20.47	14

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

In the first quarter of 2019, Kelt delivered strong financial and operating results as highlighted by the following:

- Achieved record quarterly funds from operations of $51.4 million ($0.28 per share, diluted) during the first quarter of 2019 which increased 9% from $47.1 million ($0.26 per share, diluted) in the fourth quarter of 2018 and increased 13% from $45.7 million ($0.25 per share, diluted) during the same quarter in 2018.
- Average production was 27,057 BOE per day (43% oil/NGLs), consistent with the first quarter of 2018 of 26,978 BOE per day (44% oil/NGLs) and down 6% from 28,711 BOE per day (46% oil/NGLs) in the fourth quarter of 2018.
- Total revenue for the three months ended March 31, 2019 was $102.6 million, up 14% from $90.0 million in the same quarter of 2018. Kelt's average realized price before financial instruments of $40.64 per BOE during the first quarter of 2019 is 13% higher than the average realized price before financial instruments of $36.07 per BOE realized in the first quarter of 2018 and is 10% higher than the average realized price before financial instruments of $36.94 in the fourth quarter of 2018. The increase in revenue for the first quarter of 2019 compared to the first quarter of 2018 is primarily due an increase in Kelt's realized gas prices directly resulting from the Company's diversified natural gas marketing portfolio. Kelt realized a gas price of $5.18 per mmcf in the first quarter of 2019 compared to AECO 5A reference price of $2.25 per mmcf.

  The increase in revenue compared to the fourth quarter of 2018 is primarily due to a 73% increase in Kelt's realized oil price, as both WTI benchmark prices increased over the prior quarter, and a significant narrowing of the Canadian crude oil differential occurred at the end of 2018 resulting in a large increase in Canadian benchmark oil prices.
- Kelt's operating netback was $23.39 per BOE for the quarter ended March 31, 2019, up 21% from $19.39 per BOE during the quarter ended December 31, 2018 and up 14% from $20.47 per BOE during the quarter ended March 31, 2018. The increase in operating netback is driven by Kelt's higher combined average realized price which was partially offset by higher per unit production expenses, which averaged $10.14 per BOE during the first quarter of 2019.
- Capital expenditures before minor property acquisitions and dispositions incurred during the three months ended March 31, 2019 were $104.9 million, representing 39% of the annual capital budget, focused on development drilling on the Company's Montney acreage at Inga/Fireweed and Wembley. Drilling and completion

expenditures of $67.4 million included the drilling of 10 net wells, and the completion of 15 net wells.

- The Company completed the annual review of its credit facility which resulted in an increase to the borrowing base to $315 million from $250 million.
- Kelt maintained a strong balance sheet with net debt of $258.4 million at March 31, 2019 representing 1.3 times trailing adjusted funds from operations as at March 31, 2019 (December 31, 2018 – 1.1 times).

PRODUCTION

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%
Average daily production:			
Oil (bbls/d)	**7,806**	8,494	-8
NGLs (bbls/d)	**3,903**	3,439	13
Gas (mcf/d)	**92,089**	90,271	2
Combined (BOE/d)	**27,057**	26,978	-
Oil and NGLs weighting	**43%**	44%	

Average production for the three months ended March 31, 2019 remained consistent as compared to the same period in 2018 and decreased 6% compared to the average production during the fourth quarter of 2018. The Company's ongoing development program involves drilling, completing and equipping padsites of multiple wells prior to bringing new production on-stream. In addition, the Company awaits the commencement of commercial operations at the Townsend Deep-cut Gas Plant ("Altagas Facility") in BC and the Pipestone Sour Deep-cut Gas Plant ("Tidewater Facility") at Wembley. As a result, production additions are anticipated to occur in large increments throughout 2019. At Inga/Fireweed, the Company is budgeting 6.0 wells to come on-stream in Q2 2019, 11.0 wells in Q3 2019 and 6.0 wells in Q4 2019. At Wembley/Pipestone the Company has 11 wells that are expected to come on-stream in the third quarter of 2019 once the Tidewater Facility commences operations.

REVENUE

All references to revenue in this discussion are before royalties. Petroleum and natural gas revenue (before royalties) as reported in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) has been abbreviated as "total revenue". "Kelt Revenue" includes total revenue, net of the cost of the third party volumes purchased and is before royalties – refer to additional information under the heading of "Non-GAAP Financial Measures and Other Key Performance Indicators".

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%
Revenue, before royalties and financial instruments:			
Oil	**46,099**	52,010	-11
NGLs	**8,854**	9,459	-6
Gas	**39,469**	26,014	52
Revenue, before marketing	**94,422**	87,483	8
Marketing revenue (2)	**8,163**	2,510	225
Total revenue (1)	**102,585**	89,993	14
Cost of purchases (3)	**(3,608)**	(2,407)	50
Kelt Revenue (4)	**98,977**	87,586	13

(CA$ thousands, except as otherwise indicated)	2019	2018	%
	Three months ended March 31		
Average realized prices [5]			
Oil ($/bbl)	**67.17**	68.16	-1
NGLs ($/bbl)	**25.20**	30.56	-18
Gas ($/mcf)	**5.18**	3.20	62
Combined ($/BOE)	**40.64**	36.07	13

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

(2) Marketing revenue relates to the Company's sale of third party volumes in its oil blending operations and the resale of third party gas volumes.

(3) Cost of purchases relates to third party volumes purchased for resale in the Company's oil blending operations and the purchase of third party gas volumes.

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

(5) Average realized prices are calculated based on Kelt Revenue (4) and reflect Kelt's realized commodity prices plus the net benefit of oil blending/marketing activities (2) and (3). Refer to additional information under the heading of *"Non-GAAP Financial Measures and Other Key Performance Indicators"*.

Revenue for the first quarter of 2019 was $94.4 million, up 8% from $87.5 million from the first quarter of 2018. The increase in revenue is driven primarily by higher combined average realized prices, which increased 13% to $40.64 per BOE in the first quarter of 2019 compared to $36.07 per BOE during the first quarter of 2018. The increase in Kelt's average realized price is primarily due to higher natural gas benchmark prices, which were offset by the impact of lower oil and NGL commodity prices.

OIL REVENUE

References to "oil" in this discussion includes crude oil and field condensate (see "Basis of Presentation" for additional references). All references to "oil revenue" are before oil royalties.

(CA$ thousands, except as otherwise indicated)	2019	2018	%
	Three months ended March 31		
Oil production (average bbls per day)	**7,806**	8,494	-8
Oil revenue, before marketing	**46,099**	52,010	-11
Marketing revenue, net of cost of purchases [1]	**1,088**	103	956
Kelt Oil Revenue	**47,187**	52,113	-9
Average realized oil prices ($/bbl) [2][3]	**67.17**	68.16	-1
Average realized price, percentage of MSW	**101%**	97%	
Benchmark oil prices:			
WTI Cushing Oklahoma (US$/bbl) [5]	**54.83**	62.87	-13
WTI Cushing Oklahoma (CA$/bbl) [5]	**72.88**	79.52	-8
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) [4]	**66.53**	72.04	-8
MSW % of CA$WTI	**91%**	91%	1
Average exchange rate (CA$/US$) [6]	**1.3292**	1.2645	5

(1) Net marketing revenue related to the purchase and resale of third party volumes used in the Company's oil blending operations.

(2) Calculated based on Kelt Oil Revenue and reflects Kelt's realized oil price plus the net benefit of oil blending/marketing activities.

(3) The Company's realized oil price is discounted to benchmark oil prices as the base price paid by purchasers is adjusted for quality and is net of all applicable fees and deductions, including pipeline tariffs or location differentials. These tariffs and differentials vary depending on the delivery point, but do not fluctuate with oil prices. Pipeline tariffs are classified as transportation expenses when the Company has firm commitments or contractual arrangements on the pipeline. Refer to further discussion under the heading of *"Transportation Expenses"*.

(4) Source: Tidal Energy Marketing.

(5) Source: U.S Energy Information Administration, Canadian dollar equivalent price WTI price ("CA$WTI") is calculated based on the monthly average U.S. dollar WTI price and the monthly average CA$/US$ exchange rate (6).

(6) Source: Bank of Canada.

Kelt realized an average oil price of $67.17 per barrel during the three months ended March 31, 2019, down 1% from $68.16 per barrel during the comparative period of 2018. Global benchmark oil prices rebounded during the first quarter of 2019 from the lows reached in December 2018 as supply concerns once again begin to impact the market. The average premium of Kelt's realized oil price relative to the MSW reference price was $0.64 per barrel (1% of MSW) during the first quarter of 2019 compared to an average discount of $3.88 per barrel (3% of MSW) during the first quarter of 2018.

NGL REVENUE

References to "NGLs" in this discussion includes pentanes (C5 and C5+), butane (C4), propane (C3) and ethane (C2) (see "Basis of Presentation" for additional references). All references to "NGLs revenue" are before NGLs royalties.

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%
NGLs production (average bbls per day)	**3,903**	3,439	13
NGLs revenue	**8,854**	9,459	-6
Average realized NGLs price ($/bbl)			
Before financial instruments	**25.20**	30.56	-18
Realized gain (loss) on financial instruments	**-**	-	-
After financial instruments	**25.20**	30.56	-18
Average realized price, percentage of CA$WTI (1)	**35%**	38%	
Benchmark NGLs prices (2) ($/bbl):			
Edmonton Pentane	**68.63**	80.30	-15
% of CA$WTI	**94%**	101%	
Edmonton Butane	**5.91**	48.39	-88
% of CA$WTI	**8%**	61%	
Edmonton Propane	**16.39**	33.02	-50
% of CA$WTI	**22%**	42%	
Edmonton Ethane	**9.90**	5.71	73
% of CA$WTI	**14%**	7%	

(1) Average realized NGLs price, before financial instruments, divided by the Canadian dollar equivalent WTI reference price for the period.

(2) Source: Sproule Associates Limited.

Kelt realized an average price before financial instruments for its NGL sales of $25.20 per barrel (35% of CA$WTI) during the first quarter of 2019, down 18% from $30.56 per barrel (38% of CA$WTI) during the first quarter of 2018. The decrease in NGLs prices was driven by less demand for pentane, butane and propane, an increase in butane supply, and a decrease in WTI crude oil prices.

GAS REVENUE

References to "gas" in this discussion includes natural gas and sulphur (see "Basis of Presentation" for additional references). All references to "gas revenue" are before gas royalties.

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%
Gas production (MCF per day)	**92,089**	90,271	2
Gas revenue, before marketing	**39,469**	26,014	52
Marketing revenue, net of cost of purchases (10)	**3,467**	-	-
Kelt Gas Revenue	**42,936**	26,014	65
Average realized gas price ($/MCF)			
Before financial instruments	**5.18**	3.20	62
Realized gain (loss) on financial instruments	**(0.10)**	-	-
After financial instruments	**5.08**	3.20	59
Kelt average premium to AECO 5A (1)	**130%**	55%	
Benchmark gas prices:			
NYMEX Henry Hub (US$/MMBtu) (2)	**3.12**	2.95	6
Average exchange rate (CA$/US$) (3)	**1.3292**	1.2645	5
NYMEX Henry Hub (CA$/MMBtu) (2)	**4.15**	3.73	11
AECO 5A (CA$/MMBtu) (4)	**2.25**	2.07	9
Chicago-City Gate (CA$/MMBtu) (5)	**4.10**	3.72	10
Dawn (CA$/MMBtu) (6)	**3.87**	3.81	1
Malin (CA$/MMBtu) (7)	**5.16**	3.16	63
Sumas (CA$/MMBtu) (8)	**5.32**	3.11	71
Station 2 (CA$/MMBtu) (9)	**1.31**	1.91	-31

(1) Kelt's average realized price, before financial instruments, relative to AECO 5A (CA$/MMBtu) assumes 1 MMBtu = 1 MCF.

(2) Source: Canadian Gas Price Reporter "Henry Hub 3-Day Average Close" (US$/MMBtu). The Canadian dollar equivalent NYMEX price is calculated based on the monthly average US$ price and the monthly average CA$/US$ exchange rate (3).

(3) Source: Bank of Canada.

(4) Source: Canadian Gas Price Reporter "NGX AB-NIT Same Day Index 5A" (CA$/GJ) converted to CA$/MMBtu.

(5) Source: Platts "Alliance, into Interstates" Daily Midpoint Average (US$/MMBtu). The Canadian dollar equivalent Chicago-City Gate price is calculated based on the monthly average US$ price and the monthly average CA$/US$ exchange rate (3).

(6) Source: Canadian Gas Price Reporter "NGX Union-Dawn Spot Day Ahead Index" (CA$/GJ) converted to CA$/MMBtu.

(7) Source: Platts "P&G Malin" Monthly Bidweek Spot Gas Price (US$/MMBtu). The Canadian dollar equivalent Malin price is calculated based on the monthly average US$ price and the monthly average CA$/US$ exchange rate (3).

(8) Source: Platts "Northwest, Canadian Border (Sumas)" Monthly Bidweek Spot Gas Price (US$/MMBtu). The Canadian dollar equivalent Sumas price is calculated based on the monthly average US$ price and the monthly average CA$/US$ exchange rate (3).

(9) Source: Canadian Gas Price Reporter "NGX Spectra Station #2 Day Ahead Index" (CA$/GJ) converted to CA$/MMBtu.

(10) Net marketing revenue related to the purchase and resale of third party volumes.

Natural gas revenue before marketing increased 52% to $39.5 million in the first quarter of 2019 as compared to the same period in 2018. The increase in revenue is primarily due an increase in Kelt's realized gas prices directly resulting from the Company's gas diversification strategy introduced in 2017. Over the comparable periods, the AECO 5A gas reference price averaged $2.25 per MMBtu and $2.07 per MMBtu, respectively, compared to Kelt's realized price of $5.08 per MMBtu and $3.20 per MMBtu, respectively. Kelt's premium to the AECO 5A is due to its gas marketing arrangements which exposes Kelt to markets outside of BC and Alberta, and the higher heat content of its gas production. Many US markets experienced higher natural gas prices in the first quarter of 2019 due to a cold winter heating season and lower than historical storage volumes. The impact of the higher realized gas price on Kelt's funds from operations is partially offset by higher transportation tolls which are included in transportation expenses.

The Company estimates that approximately 12% of its natural gas production was sold at AECO and Station 2 in Q1 2019. Based on current estimates, the Company anticipates selling less than 20% of its 2019 production at AECO and Station 2.

ROYALTIES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Royalties	**4,907**	6,667	-26
Average royalty rate [1]	**5.2%**	7.4%	-32
$ per BOE	**2.01**	2.75	-27

(1) Average royalty rate is calculated based on total royalties as a percentage of "Revenue, before marketing" which excludes revenue related to the sale of third party production volumes (see table under the heading of *"Revenue"*).

Kelt's average royalty rate was 5.2% during the first quarter of 2019, compared to 7.4% during the first quarter of 2018. Oil and NGLs royalties decreased by $3.1 million in the first quarter of 2019 compared to the first quarter of 2018. Alberta oil royalties are calculated based on crown par reference prices, which are on a one to two month lag against benchmark commodity prices. The steep drop in Canadian benchmark crude oil prices in December 2018 as a result of pipeline capacity issues resulted in an approximate 40% drop in crown par price in January 2019 from the previous month. This decrease in oil and NGLs royalties in the first quarter of 2019 was partially offset by an increase in net gas royalties, primarily due to a higher GCA and PCOS credit in 2018 as compared to 2019.

PRODUCTION EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Production expense [1]	**24,698**	22,949	8
$ per BOE	**10.14**	9.45	7

(1) The first quarter of 2019 excludes ~$0.3 million of lease payments which would have been included in production expenses for prior periods.

The Company incurred total production expenses of $24.7 million during the first three months of 2019, up 8% from the comparative quarter. Production expenses averaged $10.14 per BOE during the first three months of 2019, compared to $9.45 per BOE in the same period in 2018. On a per BOE basis, operating expenses increased by 7%, primarily due to an increase in production optimization maintenance work and repairs resulting from severe cold winter conditions.

TRANSPORTATION EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Transportation expense [1]	**11,619**	8,247	41
$ per BOE	**4.77**	3.40	40

(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 $4.77 per BOE during the first quarter of 2019, an increase of 40% from $3.40 per BOE in the first quarter of 2018. The increase in average per unit transportation expenses was due to higher pipeline tolls under marketing arrangements entered into in the fourth quarter of 2018 to deliver additional natural gas on the Alliance pipeline to Chicago.

FINANCING EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Interest and fees on bank debt	**1,998**	1,230	62
Interest on convertible debentures	**1,108**	1,110	-
Interest on finance lease	**41**	-	-
Total interest expense	**3,147**	2,340	34
Accretion of convertible debentures	**1,036**	926	12
Accretion of decommissioning obligations	**784**	769	2
Total financing expense	**4,967**	4,035	23
Interest expense per BOE (1)	**1.29**	0.96	34
Average principal amount outstanding during period:			
Bank debt	**184,133**	108,296	70
Convertible debentures	**89,910**	90,000	-
Average total principal amount of debt outstanding	**274,043**	198,296	38
Average interest rates:			
Bank debt (2)	**4.0%**	3.8%	5
Convertible debentures	**5.0%**	5.0%	-

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

(2) Average interest rate inclusive of fees on bank debt.

The Company's total interest expense of $3.1 million ($1.29 per BOE) for the first quarter of 2018 is up 34% from the comparative quarter. The Company's average bank debt outstanding increased for both the three months ended March 31, 2019 resulting in an increase in total interest expense from the prior year.

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 March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Salaries and benefits	**2,834**	2,324	22
Other G&A expenses	**1,496**	1,242	20
Gross G&A expenses	**4,330**	3,566	21
Overhead recoveries	**(1,739)**	(1,723)	1
G&A expense, net of recoveries	**2,591**	1,843	41
Gross G&A ($ per BOE)	**1.78**	1.47	21
Net G&A ($ per BOE)	**1.06**	0.76	39

G&A expense, net of recoveries, averaged $1.06 per BOE during the first quarter of 2019, an increase of 39% compared to $0.76 per BOE during the first quarter of 2018. The increase in gross G&A expenses during the first quarter of 2019 compared to the first quarter of 2018 is primarily driven by the increase in total salaries and benefits to support the Company's growth. The per BOE costs is expected to decrease over 2019 as production ramps up from the Company's development drilling program.

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 March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Stock options	**1,116**	1,142	-2
Restricted share units ("RSUs")	**762**	446	71
Total SBC expense	**1,878**	1,588	18
$ per BOE	**0.77**	0.65	18

The increase in SBC expense during the quarter ended March 31, 2019 compared to the same quarter in 2018 is primarily a result of a higher fair value and number of RSUs outstanding.

As at March 31, 2019, stock options and RSUs outstanding represent 5% of total shares outstanding (December 31, 2018 – 6%).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Expired mineral leases	**273**	1,490	-82
$ per BOE	**0.11**	0.61	-82

The Company expensed $0.3 million of costs related to the expiry of non-core land holdings during the first quarter of 2019, compared to lease expiries of $1.5 million expensed in first quarter of 2018. The lease expiry's relate to non-core land holdings as the Company continues to focus on the development of its core areas.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Depletion of D&P assets	**33,324**	38,526	-14
Depreciation of right-of-use assets	**404**	-	-
Depreciation of corporate assets	**188**	203	-7
Total depletion and depreciation	**33,916**	38,729	-12
Depletion and depreciation ($/BOE)	**13.93**	15.95	-13

The Company calculates depletion of development and production ("D&P") assets based on production relative to total proved reserves for each depletion unit. Depletion and depreciation expense of $33.9 million for the quarter ended March 31, 2019 decreased by 12% from $38.7 million in the comparable period in 2018, with the decrease primarily attributed to an increase in proved reserves, which lowered the depletion and depreciation rate per BOE.

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Gain (loss) on sale of assets	**1,375**	128	974

During the first quarter of 2019 the Company completed minor dispositions of non-core properties with a fair value of $1.4 million and a gain on sale of $1.4 million.

DERIVATIVE FINANCIAL INSTRUMENTS

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 March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Realized loss	**(812)**	-	-
Unrealized loss	**(2,629)**	-	-
Loss on derivative financial instruments	**(3,441)**	-	-
$ per BOE	**(1.41)**	-	-

Commodity price risk

Commodity price risk is the price uncertainty to the Company's financial performance upon fluctuations in the prices of commodities that are out of the control of the Company. Commodity prices are primarily driven by market forces 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 March 31, 2019, the following commodity price risk management contracts outstanding:

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

Interest rate risk

The Company is exposed to interest rate risk as changes in market interest rates will impact the Company's credit facility which is subject to a floating interest rate. Based on average bank debt outstanding of $184.1 million during the first quarter of 2019, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.5 million.

As at March 31, 2019, 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 as benchmark oil and natural gas prices are denominated in U.S. dollars and the Company has both sales and transportation contracts in U.S. dollars.

As at March 31, 2019, the following foreign exchange risk management contract is outstanding:

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

PREMIUM ON FLOW-THROUGH SHARES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Premium on flow-through shares	**-**	1,042	-

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities ("FTS") to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of December 31, 2018 all eligible expenditures for the Company's flow through shares issued in 2018 and in prior years have been incurred, and no FTS were issued in the first quarter of 2019.

INCOME TAXES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Deferred income tax expense (recovery)	**3,587**	3,421	5
Profit (loss) before taxes	**12,956**	3,398	281
Effective tax recovery rate	**28%**	101%	

Kelt's consolidated combined federal and provincial statutory tax rate averaged 27.0% during the three months ended March 31, 2019 and 2018, respectively.

Kelt's effective tax rate in the first quarter of 2019 is consistent with the statutory rate. For 2018, the effective rate was 101 percent, primarily due to qualifying expenditures incurred and renounced in respect of the Company's CEE flow-through share commitments.

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. The Company's consolidated tax pools are estimated to be approximately $1,106 million as of March 31, 2019 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**March 31 2019**	December 31 2018	% change
Canadian oil and gas property expenses (COGPE)	10%	**128,743**	128,254	-
Canadian development expenses (CDE)	30%	**263,533**	216,975	21
Canadian exploration expenses (CEE)	100%	**96,835**	105,921	-9
Undepreciated capital cost (1) (UCC)	25%	**270,573**	254,430	6
Share and debt issue costs (SIC/DIC)	5 years	**3,457**	4,010	-14
Non-capital losses (2) (NCL)	100%	**343,084**	339,031	1
Estimated tax deductions available, end of period		**1,106,225**	1,048,621	5

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

(2) The Company's non-capital losses expire in years 2023 to 2038.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Profit (loss) and comprehensive income (loss)	**9,369**	(23)	-
Wtd avg. shares outstanding, basic (000s)	**184,017**	180,125	2
Wtd avg. shares outstanding, diluted (000s) (1)(2)	**184,617**	181,706	2
$ per common share, basic	**0.05**	-	-
$ per common share, diluted (1)(2)	**0.05**	-	-
$ per BOE	**3.83**	-	-

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for the first quarter ended March 31, 2018 the Company excluded the effect of stock options and RSUs as they were anti-dilutive. In computing the diluted loss per common share for the first quarter ended March 31, 2019 the dilutive impact of the effect of stock options and RSUs did not result in a change in the $ per common share.

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

Kelt reported a profit of $9.4 million ($0.05 per common share, diluted) for the three months ended March 31, 2019, compared to a loss of $0.02 million in the same three month period of 2018. The increase to profit is primarily due to an increase of $5.7 million in adjusted funds from operations and a decrease in depletion expense of $4.8 million.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income and adjusted funds from operations generated during the three month periods ended March 31, 2019 and 2018, respectively. Adjusted funds from operations and operating income or netbacks ($ per BOE) are non-GAAP measures used by Kelt as key measures of performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, profit or other measures of financial performance calculated in accordance with GAAP.

THREE MONTHS ENDED MARCH 31ST	**2019**		2018		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas revenue	**102,585**	**42.12**	89,993	37.06	14	14
Cost of purchases	**(3,608)**	**(1.48)**	(2,407)	(0.99)	50	49
Realized loss on financial instruments (1)	**(812)**	**(0.33)**	-	-	-	-
Royalties	**(4,907)**	**(2.01)**	(6,667)	(2.75)	-26	-27
Revenue, after royalties and financial instruments	**93,258**	**38.30**	80,919	33.32	15	15
Production expense	**(24,698)**	**(10.14)**	(22,949)	(9.45)	8	7
Transportation expense	**(11,619)**	**(4.77)**	(8,247)	(3.40)	41	40
Operating income (2)	**56,941**	**23.39**	49,723	20.47	15	14
Financing expense (3)	**(3,147)**	**(1.29)**	(2,340)	(0.96)	34	34
G&A expense	**(2,591)**	**(1.06)**	(1,843)	(0.76)	41	39
Other income	**495**	**0.19**	-	-	-	-
Realized loss on foreign exchange	**(257)**	**(0.11)**	184	0.08	-240	-238
Adjusted funds from operations (4)	**51,441**	**21.12**	45,724	18.83	13	12
Basic ($ per common share) (5)	**0.28**		0.25		12	
Diluted ($ per common share) (5)	**0.28**		0.25		12	
Common shares outstanding (000s):						
Basic, weighted average	**184,017**		180,125		2	
Diluted, weighted average	**184,617**		181,706		2	

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

(2) "Operating income" is a non-GAAP financial measure which is calculated by deducting cost of purchases, royalties, production expenses and

transportation expenses from petroleum and natural gas revenue, after realized gains or losses on associated financial instruments.

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

(4) "Adjusted funds from operations" is a non-GAAP financial measure which is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs, provisions for potential credit losses, and settlement of decommissioning obligations. Adjusted funds from operations is used by Kelt as key measures of performance; refer advisories under the heading of "Non-GAAP Financial Measure and Other Key Performance Indicators" for a reconciliation of adjusted funds from operations. Management feels that adjusted funds from operations and operating income or netbacks provides useful information to the Company's stakeholders as it provides the ability to better analyze operational performance with information that is commonly used by other crude oil and natural gas producers.

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

During the three months ended March 31, 2019, adjusted funds from operations of $51.4 million ($0.28 per share, diluted) increased by 13% from $45.7 million ($0.25 per share, diluted) during the first quarter ended March 31, 2018 and increased by 9% from $47.1 million ($0.26 per share, diluted) during the fourth quarter ended December 31, 2018. The increase in adjusted funds from operations is primarily attributed to the increase in Kelt's revenues (after royalties and financial instruments) which are up 15% or $12.3 million to $93.3 million compared to $80.9 million in the first quarter of 2018. The increase is driven primarily by a 62% increase in realized natural gas prices in the first quarter of 2019.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

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

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%
Capital expenditures:			
Lease acquisition and retention	**340**	2,799	-88
Geological and geophysical	**137**	208	-34
Drilling and completion of wells	**67,411**	64,501	5
Facilities, pipeline and well equipment	**36,925**	22,697	63
Corporate assets	**113**	172	-34
Capital expenditures, before A&D	**104,926**	90,377	16
Property acquisitions (1)	**4,408**	1,907	131
Property dispositions (1)	**(1,372)**	(247)	455
Total capital expenditures, net of dispositions	**107,962**	92,037	17

(1) Includes the impact of non-cash asset swap transactions in which $1.4 million of exploration and evaluation assets were exchanged for assets with a net book value of $28k.

DRILLING

Drilling and completion expenditures for the three month period ended March 31, 2019 were focused on Montney wells in the Company's core Alberta and BC areas. During the quarter, the Company drilled 10 gross (10.0 net) wells and completed 15 gross (15.0 net) wells compared to 10 gross (9.1 net) wells drilled and 13 gross (12.1 net) wells completed in the comparative quarter of 2018.

2019	Quarter ended March 31, 2019 Drilling Gross	 Net	Quarter ended March 31, 2019 Completion Gross	 Net
Oil	**4.0**	**4.0**	**4.0**	**4.0**
Gas	**5.0**	**5.0**	**9.0**	**9.0**
Service	**1.0**	**1.0**	**2.0**	**2.0**
Dry	**-**	**-**	**-**	**-**
Total wells	**10.0**	**10.0**	**15.0**	**15.0**

2018	Quarter ended March 31, 2018 Drilling Gross	 Net	Quarter ended March 31, 2018 Completion Gross	 Net
Oil	**6.0**	**5.1**	**10.0**	**9.1**
Gas	**4.0**	**4.0**	**3.0**	**3.0**
Service	**-**	**-**	**-**	**-**
Dry	**-**	**-**	**-**	**-**
Total wells	**10.0**	**9.1**	**13.0**	**12.1**

PROPERTY ACQUISITIONS

During the quarter ended March 31, 2019, the Company acquired certain oil and gas assets which included undeveloped land of $4.5 million, developed land of $0.3 million, and decommissioning obligations of $0.3 million. The net assets acquired and the liabilities assumed were recorded at fair value on the acquisition date of $4.4 million and included cash consideration of $3.0 million and non-cash consideration of $1.4 million.

CAPITAL RESOURCES AND LIQUIDITY

Kelt's objective is to maintain a flexible capital structure and sufficient liquidity to execute on its capital investment program and strategic growth plan. The Company strives to actively manage its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As at March 31, 2019, Kelt's capital structure was comprised of shareholders' capital, convertible debentures, bank debt and working capital.

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

The capital intensive nature of Kelt's operations results in increases to bank debt or working capital deficiency during periods with high levels of capital investment. In the first quarter of 2019 the Company's capital expenditures of $104.9 million (before minor property acquisitions and dispositions) versus its funds from operations of $51.4 million resulted in an increase of net debt to $258.4 million at March 31, 2019 from $196.4 million at December 31, 2018. At March 31, 2019, the Company's net debt to trailing adjusted funds from operations ratio increased to 1.3 times from 1.1 times as at December 31, 2018. The net debt to trailing adjusted funds from operations ratio is expected to decrease to 0.9 times by the end of 2019 as the Company's funds from operations increases as a result of production adds during the second half of 2019.

	March 31, 2019	December 31, 2018
Bank debt	**193,322**	168,881
Working capital deficiency	**65,029**	27,535
Net debt (1)	**258,351**	196,416
Trailing annualized first quarter adjusted funds from operations (2)(3)	**205,764**	186,839
Net debt to trailing adjusted funds from operations ratio (1)	**1.3**	1.1

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

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

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

The Company targets to maintain sufficient unused bank credit lines to satisfy working capital deficiencies. As at March 31, 2019, the Company's working capital deficit of $65.0 million combined with outstanding bank debt of $193.3 million, represented 82% of the authorized borrowing amount available under the credit facility of $315.0 million.

Future capital expenditures are expected to be funded through a combination of cash flow from operations and bank debt, and may be supplemented by new equity or debt offerings.

CREDIT FACILITY

On March 29, 2019, the Company's revolving committed term credit facility million ("the Credit Facility") was amended with the revolving period extended to April 28, 2020 and the lenders commitments under the Credit Facility increased to $315.0 million from $250.0 million. The pricing grid and stamping fees remained the same, which currently ranges from bank prime plus 0.5% to bank prime plus 2.5% and the stamping fee ranges from 1.5% to 3.5% depending upon the Company's then current debt to EBITDA ratio of between less than one half times to greater than three times.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year.

CONVERTIBLE DEBENTURES

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at March 31, 2019. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price").

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

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

The Debentures trade on the TSX under the symbol “KEL.DB”.

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at March 31, 2019 there were 184.0 million common shares issued and outstanding; there are no preferred shares issued or outstanding.

The Company’s common shares trade on the TSX under the symbol “KEL”. During the first three months of 2019, 67.3 million common shares traded on the TSX at a weighted average price of $4.99 per common share, down from the volume weighted average trading price of $7.10 per common share during the year ended December 31, 2018.

As at March 31, 2019, officers, directors, and employees have been granted options to purchase 9.1 million common shares of the Company at an average exercise price of $5.72 per common share. In addition, there are 1.1 million RSUs outstanding. Options and RSUs outstanding at March 31, 2019 represented 5.0% of total common shares issued and outstanding. Additional information regarding the Company’s stock options and RSUs is included in note 11 of the interim financial statements.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As of March 31, 2019, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2019	2020	2021	2022	2023	Thereafter
Firm processing commitments (1)	10,511	13,386	19,481	20,429	19,073	106,952
Firm transportation commitments (2)	33,498	27,515	23,001	22,304	19,423	157,145
Total annual commitments	**44,009**	**40,901**	**42,482**	**42,733**	**38,496**	**264,097**

(1) Includes gas gathering related to the Company’s firm processing commitments

(2) A portion of Kelt’s commitments on the Alliance pipeline are denominated in US dollars. The volumes committed vary over the term of the contracts, which is effective until October 31, 2020. Amounts are translated to Canadian dollars at the spot rate on March 29, 2019 of CA$/US$1.3363.

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases on the balance sheet some of which were previously reported as commitments. Refer to note 3 of the interim financial statements for a reconciliation of the commitments as at December 31, 2018 to Kelt’s lease liabilities as at January 1, 2019.

RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the three months ended March 31, 2019, the Company incurred $0.2 million (2018 – $0.2 million) in legal fees and disbursements.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended March 31, 2019 and 2018.

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)	**Q1 2019**	Q4 2018	Q3 2018	Q2 2018
Petroleum and natural gas revenue, before royalties	**102,585**	100,350	100,219	98,715
Cash provided by operating activities	**53,813**	63,656	29,881	39,183
Adjusted funds from operations (1)	**51,441**	47,140	46,876	47,099
Per share – basic ($/common share) (1)	**0.28**	0.26	0.25	0.26
Per share – diluted ($/common share) (1)	**0.28**	0.26	0.25	0.25
Profit (loss) and comprehensive income (loss)	**9,369**	2,843	3,246	1,702
Per share – basic ($/common share)	**0.05**	0.02	0.02	0.01
Per share – diluted ($/common share)	**0.05**	0.02	0.02	0.01
Total capital expenditures, net of dispositions	**107,962**	70,332	68,427	54,702
Total assets	**1,515,227**	1,423,521	1,378,114	1,346,701
Net debt (1)	**258,351**	196,416	176,046	157,058
Convertible debentures	**79,426**	78,390	77,350	76,348
Shareholders' equity	**904,835**	893,796	889,275	882,916
Average daily production (BOE/d)	**27,057**	28,711	26,204	26,120
Average realized price ($/BOE) (1)(2)	**40.31**	34.71	37.74	38.51
Operating netback ($/BOE) (1)	**23.39**	19.39	20.93	21.57
Operating netback % of average realized price (2)	**58%**	56%	55%	56%

	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Petroleum and natural gas revenue, before royalties	89,993	80,838	56,422	60,072
Cash provided (used in) by operating activities	53,663	36,458	24,394	28,480
Adjusted funds from operations (1)	45,724	32,898	22,957	25,333
Per share – basic ($/common share) (1)	0.25	0.18	0.13	0.14
Per share – diluted ($/common share) (1)	0.25	0.18	0.13	0.14
Profit (loss) and comprehensive income (loss)	(23)	(5,389)	(10,653)	(4,869)
Per share – basic ($/common share)	-	(0.03)	(0.06)	(0.03)
Per share – diluted ($/common share))	-	(0.03)	(0.06)	(0.03)
Total capital expenditures, net of dispositions	92,037	55,778	75,933	31,630
Total assets	1,337,688	1,276,567	1,227,962	1,203,174
Net debt (1)	173,587	136,729	134,759	80,618
Convertible debentures	75,443	74,517	73,584	72,685
Shareholders' equity	857,019	845,701	830,344	839,485
Average daily production (BOE/d)	26,978	25,063	22,510	20,684
Average realized price ($/BOE) (1)(2)	36.07	33.42	27.26	31.70
Operating netback ($/BOE) (1)	20.47	16.18	12.86	15.49
Operating netback as a % of average realized price (2)	57%	48%	47%	49%

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

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

In the second half of 2014, global crude oil prices began a precipitous decline that subsequently resulted in massive cutbacks in capital spending on energy projects worldwide. After averaging US$93.00 per barrel in 2014, WTI oil prices averaged US$48.80 per barrel in 2015 and bottomed with a low average price of US$33.45 per barrel during the first quarter of 2016. The positive momentum for global crude oil prices commenced in November 2016 when OPEC and certain non-OPEC countries agreed to cut oil production, which led to a slow balancing of global oil demand and supply. In the fourth quarter of 2018, prices retracted to a monthly low in December 2018 of US$49.52 per barrel as global trade tensions reduced forecasted oil demand and placed downward pressure on oil prices. In the domestic market, international access constraints due to capacity issues on Canadian pipelines in the fourth quarter of 2018 resulted in a significant widening of price differentials for Canadian crude oil compared to international benchmark prices. This differential narrowed back to historical levels by the end of December as the Government of Alberta announced mandated province wide crude oil curtailments for major Alberta oil producers. During the first quarter of 2019, benchmark oil prices have continued to increase as a result of a balancing of global oil inventories combined with increased global supply fears, resulting in WTI reaching its highest level in the past nine consecutive quarters in the first quarter of 2018, averaging US$62.87 per barrel.

The recovery of oil prices and the increase in the Company's average oil production weighting, taken together with higher average production, drove the significant increase in revenues, cash provided by operating activities, and operating netbacks during the first quarter of 2019.

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.

CHANGES IN ACCOUNTING POLICIES

The Company adopted IFRS 16 *Leases* ("IFRS 16") with a date of initial application of January 1, 2019. IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and other related interpretations. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease arrangements previously recognized as an operating lease under IAS 17. On adoption, the Company's lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019 of 5.9%. Right-of-use assets were measured at an amount equal to the lease liability or, if IFRS 16 had been applied from the lease commencement date, using the Company's incremental borrowing rate on January 1, 2019.

The Company used the modified retrospective approach to adopt the new standard, which does not require restatement of prior period financial information as it recognizes any cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion depreciation and amortization, and finance expense, and decreases to production and general and administrative expenses.

Refer to note 3 of the interim financial statements for additional information on the adoption of IFRS 16.

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. The significant judgments, estimates and assumptions made by management in the interim financial statements are outlined in note 2 of the December 31, 2018 annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended March 31, 2019 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2018.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no changes to the Company's internal controls over financial reporting during the interim period from January 1, 2019 to March 31, 2019 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

This MD&A contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. In addition, this MD&A contains other key performance indicators ("KPI"), financial and non-financial, that do not have standardized meanings under the applicable securities legislation. As these non-GAAP financial measures and KPI are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

Non-GAAP financial measures

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

Adjusted funds from operations and operating income or netbacks ($ per BOE) are Non-GAAP measures used by management to measure operating performance. Adjusted funds from operations and operating income or netbacks is useful to the Company's stakeholders as it provides better ability to analyze performance and to compare with information that it commonly used by other oil and gas producers. The following table reconciles cash provided by operating activities reported in accordance with GAAP to *Adjusted funds from operations*, which is a non-GAAP financial measure used by Kelt as a key measures of performance:

(CA$ thousands, except as otherwise indicated)	Three months ended March 31 2019	2018	%
Cash provided by operating activities	**53,813**	53,663	-
Change in non-cash working capital	**(3,450)**	(8,526)	-60
Funds from operations	**50,363**	45,137	12
Provision for potential credit losses	**(18)**	-	-
Settlement of decommissioning obligations	**1,096**	587	87
Adjusted funds from operations	**51,441**	45,724	13

Throughout this MD&A, reference is made to "total revenue", "Kelt Revenue" and "average realized prices". "Total revenue" refers to petroleum and natural gas revenue (before royalties) as reported in the consolidated financial statements in accordance with GAAP, and is before realized gains or losses on financial instruments. "Kelt Revenue" is a non-GAAP measure and is calculated by deducting the cost of purchases from petroleum and natural gas revenue (before royalties). "Average realized prices" are calculated based on "Kelt Revenue" divided by production and reflect the Company's realized selling prices plus the net benefit of oil blending/marketing activities, which commenced during the fourth quarter of 2017, and the net benefit of the purchase and resale of third party natural gas volumes. In addition to using its own production, the Company may purchase butane and crude oil from third 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 revenue as reported in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) in accordance with GAAP. Given the Company's per unit operating statistics disclosed throughout this MD&A are calculated based on Kelt's production volumes, management believes that disclosing its average realized prices based on Kelt Revenue is more appropriate and useful, because the cost of third party volumes purchased to generate the incremental marketing revenue has been deducted.

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

The term "net debt" is used synonymously with, and is equal to, "bank debt, net of working capital". "Net debt" is calculated by adding the working capital deficiency to bank debt. The working capital deficiency is equal to total current assets net of total current liabilities. The Company uses a "net debt to trailing adjusted funds from operations ratio" as a benchmark on which management monitors the Company's capital structure and short-term financing requirements. Management believes that this ratio, which is a non-GAAP financial measure, provides investors with information to understand the Company's liquidity risk. The "net debt to trailing adjusted funds from operations ratio" is also indicative of the "debt to cash flow" calculation used to determine the applicable margin for a quarter under the Company's Credit Facility agreement (though the calculation may not always be a precise match, it is representative).

Other KPI

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

BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company's operations or financial results. A discussion of business risks, as well as economic and industry factors affecting the Company is included in Kelt's annual MD&A for the year ended December 31, 2018, dated March 6, 2019. Additional information is included in Kelt's Annual Information Form dated March 6, 2019 which can be found at www.sedar.com

BUSINESS OUTLOOK

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 2019. 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.

CURRENT ECONOMIC ENVIRONMENT

The current economic environment in the energy industry remains volatile; however economic indicators suggest a balanced supply and demand for oil and natural gas with the potential for higher oil prices at the end of 2019 if political risk increases:

- U.S. crude oil inventories continue to remain within the 5-year band;
- Political instability in Venezuela continues to push global benchmark oil prices higher;
- The US potentially increasing Iranian sanctions commencing in May 2019 resulted in an increase to benchmark oil prices at the end of the first quarter of 2019;
- U.S. natural gas exports (to Mexico and LNG) continue to grow supporting North American natural gas prices; and
- U.S. natural gas storage continues in the first quarter of 2019 to remain below the five-year average.

Natural gas infrastructure and capacity constraints have continued to impact realized natural gas prices in domestic western Canadian markets relative to other North American markets. Kelt has taken measures to diversify its gas sales markets in order to mitigate the effect of low prices in Alberta and British Columbia.

In the current business environment, Kelt continues to focus on maintaining a strong balance sheet, giving the Company the ability to take advantage of opportunities as they arise. The Company's capital expenditure program is also flexible, with the ability to defer expenditures into the future if the current economic environment deteriorates rapidly. Kelt continues to be optimistic about the long-term outlook for oil and gas commodity prices.

2019 OUTLOOK AND GUIDANCE

In November 2018, the Company's Board of Directors approved a capital expenditure budget of $270 million for 2019. Kelt expects to drill 33.0 gross (33.0 net) wells and complete 36.0 gross (36.0 net) wells. All of the Company's drilling is expected to target the Montney formation (except for one Doig well at Inga) with 20.0 net wells planned at Inga/Fireweed, 8.0 net wells at Wembley, 4.0 net wells at Oak and 1.0 net well at each of Stoddart and Progress.

Production additions are expected to be staggered throughout 2019 as multi well pads are completed and new processing facilities are constructed. The Company is developing a 24-well pad at its Inga property with six wells expected to come on-stream in each of the second, third and fourth quarters. The final six wells of the pad are expected to be completed and on-stream in 2020. A five well pad at Fireweed is expected to be on-stream in Q3 2019. Subject to completion of a third party gas plant, Kelt plans to bring on-stream 11.0 net wells at Wembley in the third quarter of 2019.

Forecasted average production in 2019 is unchanged and estimated to be in the range from 33,500 BOE per day to 34,500 BOE per day, representing a 24% to 28% increase from average production of 27,006 BOE per day in 2018. Average production is estimated to be weighted 47% to oil/NGLs and 53% to gas.

WTI crude oil prices are forecasted to average US$60.00 per barrel, down 11% from the average forecasted price of US$67.50 per barrel in the Company's previous guidance. Forecasted NYMEX natural gas prices have been revised downwards by 5% to average $2.85 per $US/mmbtu. The average US$/CA$ exchange rate has decreased by 4% to 0.7463. After giving effect to the changes in commodity price assumptions and estimated expenses, funds from operations for 2019 remains unchanged at $240.0 million.

Net debt at December 31, 2019 is estimated to be $235 million which is an increase of $10 million from the previous budget based on higher than forecasted debt levels at the end of 2018. The Company expects to exit 2019 with an annual net debt to trailing funds from operations ratio of 0.9 times. The Company is well positioned financially to execute its capital program during the remainder of 2019 based on the assumptions currently contained in the budget. Approximately $30.0 million of capital expenditures may be deferred to 2020 if realized commodity prices in 2019 are significantly lower than currently forecasted.

The following table outlines the Company's revised financial and operating guidance for 2019 compared to its 2019 budget included in Kelt's MD&A dated November 9, 2018:

(CA$ millions, except as otherwise indicated)	**Current 2019 Guidance**	Previous 2019 Budget (Nov 9, 2018)	%
Average Production			
Oil & NGLs (bbls/d)	**15,500 – 16,400**	15,500 – 16,400	-
Gas (mmcf/d)	**105.0 – 112.0**	105.0 – 112.0	-
Combined (BOE/d)	**33,500 – 34,500**	33,500 – 34,500	-
Production per million common shares (BOE/d)	**174 - 179**	174 - 179	-
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**60.00**	67.50	-11
Mixed Sweet Blend Edmonton (CA$/bbl)	**73.17**	66.97	9
NYMEX natural gas price (US$/MMBTU)	**2.85**	3.00	- 5
AECO natural gas price (US$/MMBTU)	**1.30**	1.60	-19
Average Exchange Rate (US$/CA$)	**0.746**	0.781	-4
Net Capital Expenditures	**270.0**	270.0	-
Funds from operations	**240.0**	240.0	-
Per common share, diluted	**1.24**	1.23	-
Net debt, at year-end [(1)]	**235.0**	225.0	4%
Net debt to trailing annual funds from operations ratio	**0.9 x**	0.9 x	-
Weighted average common shares outstanding (millions)	**191.0**	192.4	1%

(1) In addition to bank debt, the Company has $89.9 million principal amount of convertible debentures outstanding with a coupon of 5% per annum, maturing May 31, 2021. 2019 Budget estimates have been prepared assuming the convertible debentures convert to 16.3 million common shares on October 1, 2019

A 10% increase (decrease) in the Company's forecasted average oil/NGLs price for 2019 would increase (decrease) forecasted funds from operations by approximately $24.1 million ($24.1 million). A 10% increase (decrease) in the Company's average gas price forecasted for 2019 would increase (decrease) funds from operations by approximately $13.8 million ($13.8 million). An increase (decrease) in the forecasted average exchange rate by CA$/US$0.05 would increase (decrease) funds from operations by approximately $15.3 million ($15.3 million).

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

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2019. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 6, 2019 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.

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

(CA$ thousands)	[Notes]	**March 31, 2019**	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**3,172**	6,455
Accounts receivable and accrued revenue	[12]	**48,575**	46,180
Prepaid expenses and deposits		**1,266**	1,668
Derivative financial instruments	[12]	**209**	3,247
Total current assets		**53,222**	57,550
Investment in securities	[12]	**1,600**	1,000
Exploration and evaluation assets	[5]	**123,218**	119,282
Property, plant and equipment	[6]	**1,337,187**	1,245,689
Total assets		**1,515,227**	1,423,521
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**115,667**	83,530
Derivative financial instruments	[12]	**242**	651
Decommissioning obligations	[9]	**1,317**	904
Lease liability	[10]	**1,025**	-
Total current liabilities		**118,251**	85,085
Bank debt	[7]	**193,322**	168,881
Convertible debentures	[8]	**79,426**	78,390
Decommissioning obligations	[9]	**160,209**	143,763
Deferred income tax liability		**57,192**	53,606
Lease liability	[10]	**1,992**	-
Total liabilities		**610,392**	529,725
SHAREHOLDERS' EQUITY			
Shareholders' capital	[11]	**1,119,404**	1,119,232
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[8]	**12,843**	12,843
Contributed surplus		**21,432**	19,713
Retained earnings (deficit)		**(191,176)**	(200,324)
Total shareholders' equity		**904,835**	893,796
Total liabilities and shareholders' equity		**1,515,227**	1,423,521
Commitments	[15]		

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Notes]	**2019**	2018
Revenue			
Petroleum and natural gas revenue	[13]	**102,585**	89,993
Royalties		**(4,907)**	(6,667)
		97,678	83,326
Expenses			
Production		**24,698**	22,949
Transportation		**11,619**	8,247
Cost of purchases		**3,608**	2,407
Financing	[14]	**4,967**	4,035
General and administrative		**2,591**	1,843
Provision for potential credit losses		**(18)**	-
Share based compensation	[11]	**1,878**	1,588
Exploration and evaluation	[5]	**273**	1,490
Depletion and depreciation	[6]	**33,916**	38,729
		83,532	81,288
Loss on derivative financial instruments	[12]	**(3,441)**	-
Foreign exchange gain (loss)		**(219)**	190
Unrealized gain on investment	[12]	**600**	-
Premium on flow-through shares		**-**	1,042
Gain on sale of assets	[4]	**1,375**	128
Other income		**495**	-
Profit before taxes		**12,956**	3,398
Deferred income tax expense		**(3,587)**	(3,421)
Profit (loss) and comprehensive income (loss)		**9,369**	(23)
Loss per common share			
Basic		**0.05**	0.00
Diluted		**0.05**	0.00

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

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

		Shareholders' capital						
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2018		184,003	1,119,232	(57,668)	12,843	19,713	(200,324)	893,796
Initial adoption of IFRS 16	[3]	-	-	-	-	-	(221)	(221)
Profit and comprehensive income		-	-	-	-	-	9,369	9,369
Exercise of stock options	[11]	4	18	-	-	(5)	-	13
Vesting of restricted share units	[11]	38	154	-	-	(154)	-	-
Share based compensation	[11]	-	-	-	-	1,878	-	1,878
Balance at March 31, 2019		**184,045**	**1,119,404**	**(57,668)**	**12,843**	**21,432**	**(191,176)**	**904,835**

Balance at December 31, 2017		178,858	1,078,773	(57,668)	12,856	20,218	(208,478)	845,701
Loss and comprehensive loss		-	-	-	-	-	(23)	(23)
Share issue costs, net of tax		-	(25)	-	-	-	-	(25)
Exercise of stock options	[11]	1,554	13,738	-	-	(3,960)	-	9,778
Vesting of restricted share units	[11]	103	618	-	-	(618)	-	-
Share based compensation	[11]	-	-	-	-	1,588	-	1,588
Balance at March 31, 2018		180,515	1,093,104	(57,668)	12,856	17,228	(208,501)	857,019

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

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

(CA$ thousands)	[Notes]	Three months ended March 31 **2019**	2018
Operating activities			
Profit (Loss) and comprehensive income (loss)		**9,369**	(23)
Items not affecting cash:			
Accretion of convertible debentures	[8,14]	**1,036**	926
Accretion of decommissioning obligations	[9,14]	**784**	769
Share based compensation		**1,878**	1,588
Exploration and evaluation		**273**	1,490
Depletion and depreciation		**33,916**	38,729
Unrealized loss on derivative financial instruments	[12]	**2,629**	-
Unrealized gain on investment in securities		**(600)**	
Unrealized gain on foreign exchange		**(38)**	(6)
Premium on flow-through shares		**-**	(1,042)
Gain on sale of assets	[4]	**(1,375)**	(128)
Deferred income tax expense		**3,587**	3,421
Settlement of decommissioning obligations	[9]	**(1,096)**	(587)
Change in non-cash operating working capital	[16]	**3,450**	8,526
Cash provided by operating activities		**53,813**	53,663
Financing activities			
Increase in bank debt		**24,441**	31,294
Issue of common shares, net of costs	[11]	**-**	(35)
Proceeds on exercise of stock options	[11]	**13**	9,778
Payments on lease liability	[10]	**(320)**	-
Cash provided by provided by financing activities		**24,134**	41,037
Investing activities			
Exploration and evaluation assets	[5]	**(468)**	(33,744)
Property, plant and equipment	[6]	**(104,458)**	(56,633)
Property acquisitions	[4]	**(3,002)**	(1,907)
Property dispositions	[4]	**(34)**	247
Investment in securities	[12]	**-**	(1,000)
Change in non-cash investing working capital	[16]	**26,694**	(1,883)
Cash (used in) investing activities		**(81,268)**	(94,920)
Foreign exchange on cash and cash equivalents		**38**	6
Net change in cash and cash equivalents		**(3,321)**	(220)
Cash and cash equivalents, beginning of period		**6,455**	3,695
Cash and cash equivalents, end of period		**3,172**	3,481

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

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in northwestern Alberta and northeastern British Columbia. Kelt's land holdings are located in two core areas, namely: (a) Grande Prairie (including Pouce Coupe, Wembley, Progress and La Glace), Alberta; and (b) Fort St. John (including Inga, Fireweed, Stoddart and Oak), British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd.), a wholly owned subsidiary of Kelt. The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively.

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

2. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on May 7, 2019 for issue on May 8, 2019.

a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook - Accounting*. These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2018.

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 outlined in note 2 of the December 31, 2018 consolidated annual financial statements. There have been no significant changes in the Company's judgments and estimates applied during the interim period ended March 31, 2019 relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2018 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements as at March 31, 2019 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2018.

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

New Accounting Policies

The Company adopted IFRS 16 *Leases* ("IFRS 16") with a date of initial application of January 1, 2019. IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and other related interpretations. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease arrangements previously recognized as an operating lease under IAS 17. On adoption, the Company's lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019 of 5.9%. Right-of-use assets were measured at an amount equal to the lease liability or, if IFRS 16 had been applied from the lease commencement date, using the Company's incremental borrowing rate on January 1, 2019.

The Company used the modified retrospective approach to adopt the new standard, which does not require restatement of prior period financial information as it recognizes any cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion depreciation and amortization, and finance expense, and decreases to production and general and administrative expenses.

The financial impact of initially applying the standard resulted in an increase of $2.7 million in right-of-use assets (included in property, plant and equipment, note 5), an increase of $2.9 million in lease liability (note 10) and a $0.2 million adjustment to retained earnings.

On adoption, the Company elected to use the following practical expedients:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Use of hindsight in determining lease terms; and
- Apply the short term lease exemption for leases with lease terms less than one year

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

	Total
Operating lease - office buildings	**4,544**
Operating lease - vehicles	**946**
Total operating leases included in commitments as at December 31, 2018	**5,490**
Less:	
Non-Lease components	**(2,646)**
Add:	
Finance lease liabilities not previously recognized in future commitments	**348**
Undiscounted lease liability as at January 1, 2019	**3,192**
Impact of discounting	**(304)**
Present value of lease liability as at January 1, 2019	**2,888**

4. PROPERTY ACQUISITIONS AND DISPOSITIONS

The following table summarizes the fair value of net assets acquired pursuant to property acquisitions during the three months ended March 31, 2019 and the year ended December 31, 2018.

Net assets acquired [(1)]	**March 31, 2019**	December 31, 2018
Exploration and evaluation assets	**4,452**	2,976
Property, plant and equipment	**253**	496
Decommissioning obligations	**(297)**	(612)
Total assets acquired	**4,408**	2,860

Consideration [(1)]	**March 31, 2019**	December 31, 2018
Cash consideration	**3,002**	2,860
Non-cash consideration	**1,406**	-
Total consideration	**4,408**	2,860

(1) Net assets acquired include the impact of non-cash asset swap transactions in which $1.4 million of exploration and evaluation assets were exchanged for assets with a net book value of $28k.

During the quarter ended March 31, 2019, the Company acquired certain oil and gas assets which included undeveloped land of $4.5 million, developed land of $0.3 million, and decommissioning obligations of $0.3 million. The net assets acquired and the liabilities assumed were recorded at fair value on the acquisition date of $4.4 million, and included cash consideration of $3.0 million and non-cash swap transactions of $1.4 million.

The table below summarizes the aggregate proceeds received and carrying values of the assets and associated decommissioning obligations disposed during the first three months of 2019 and year ended December 31, 2018, as well as the resulting net gain (loss) on sale in each period:

	March 31, 2019	December 31, 2018
Exploration and evaluation assets	**(28)**	(122)
Property, plant and equipment [(1)]	**31**	(8,914)
Decommissioning obligations	**-**	2,528
Carrying value of net assets (liabilities) disposed	**3**	(6,508)
Cash consideration, after closing adjustments [(2)]	**(34)**	10,070
Non-cash consideration [(2)]	**1,406**	-
Total consideration	**1,372**	10,070
Gain (loss) on sale of assets [(3)]	**1,375**	3,562

(1) The adjustment to property plant and equipment in the first quarter of 2019 relates to the final closing adjustments for the Leduc disposition in 2018 with the carrying value of the Leduc CGU reduced to nil.

(2) Net assets acquired include the impact of non-cash asset swap transactions in which $1.4 million of exploration and evaluation assets were exchanged for assets with a net book value of $28k resulting in a gain of sale of assets of $1.4 million.

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

During the first quarter of 2019 the Company completed minor dispositions of non-core properties with a fair value of $1.4 million and a gain on sale of $1.4 million.

Karr Non-Operated Disposition

On December 20, 2018, the Company completed the disposition of its non-operated assets in the Karr area for $7.1 million after closing adjustments. The Karr non-operated assets had a net carrying value of $3.7 million (costs of $10.9 million, accumulated depletion, depreciation and impairment of $6.5 million, and abandonment obligations of

$0.7 million), resulting in a gain on sale of $3.4 million.

Leduc Disposition

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

5. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

	March 31, 2019	December 31, 2018
Balance, beginning of period	**119,282**	123,349
Additions	**468**	44,283
Property acquisitions [note 4]	**4,452**	2,976
Property dispositions [note 4]	**(28)**	(122)
Transfers to property, plant and equipment	**(683)**	(45,993)
Expired mineral leases	**(273)**	(5,211)
Balance, end of period	**123,218**	119,282

The Company concluded that there are no indicators of potential impairment of its E&E assets at March 31, 2019.

6. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**March 31, 2019**	December 31, 2018
Development and production ("D&P") assets	**1,334,040**	1,245,178
Right-of-use ("ROU") assets	**2,711**	-
Corporate assets	**436**	511
Total net carrying value of property, plant and equipment	**1,337,187**	1,245,689

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2017	1,613,129	3,267	-	1,616,396
Additions	247,663	762	-	248,425
Property acquisitions [note 4]	496	-	-	496
Property dispositions [note 4]	(36,222)	-	-	(36,222)
Decommissioning costs	7,584	-	-	7,584
Transfers from E&E	45,993	-	-	45,993
Balance at December 31, 2018	**1,878,643**	**4,029**	**-**	**1,882,672**
Initial adoption of IFRS 16 [note 3]	**-**	**-**	**2,666**	**2,666**
Additions	**104,345**	**113**	**449**	**104,907**
Property acquisitions [note 4]	**253**	-	**-**	**253**
Property dispositions [note 4]	**31**	**-**	**-**	**31**
Decommissioning costs	**16,874**	**-**	**-**	**16,874**
Transfers from E&E	**683**	**-**	**-**	**683**
Balance at March 31, 2019	**2,000,829**	**4,142**	**3,115**	**2,008,086**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2017	505,414	2,910	-	508,324
Depletion and depreciation expense	144,691	608	-	145,299
Property dispositions [note 4]	(27,308)	-	-	(27,308)
Impairments	10,668	-	-	10,668
Balance at December 31, 2018	**633,465**	**3,518**	**-**	**636,983**
Depletion and depreciation expense	**33,324**	**188**	**404**	**33,916**
Balance at March 31, 2019	**666,789**	**3,706**	**404**	**670,899**

Future capital costs required to develop proved reserves in the amount of $847.4 million (December 31, 2018 – $871.5 million) are included in the depletion calculation for development and production assets.

The following table discloses depreciation expense and carrying amount for right-of-use assets by class of underlying asset as at and for the period ended March 31, 2019:

	Depreciation	**Carrying amount**
Office leases	**101**	1,385
Vehicle leases	**132**	802
Field equipment leases	**171**	171
Surface leases	**-**	353
Total	**404**	2,711

7. BANK DEBT

	March 31, 2019	December 31, 2018
Bankers' acceptances	**195,000**	170,000
Unamortized financing fees	**(1,678)**	(1,119)
Bank debt	**193,322**	168,881

The Company has a revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. At the end of the first quarter of 2019, the Company and its lenders completed the semi-annual review and amended the Credit Facility to extend the current revolving period to April 30, 2020, and authorized an increase to the borrowing base to $315 million, up $65 million from December 31, 2018. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 0.5% to bank prime plus 2.5%, depending upon the Company's debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio of between less than 0.5 times to greater than three times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 1.5% to 3.5%, depending upon the Company's debt to EBITDA ratio of between less than 0.5 times to greater than three times.

The following table reconciles movements in the balance of bank debt during the year:

	March 31, 2019
Bank debt balance, beginning of year	**168,881**
Net debt drawdown	**25,000**
Decrease in unamortized financing fees	**95**
Increase in prepaid interest on bankers acceptances	**(654)**
Net bank debt movement	**24,441**
Bank debt balance, end of year	**193,322**

8. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2017	90,000	74,517	12,856
Conversion of convertible debentures to equity	(90)	(76)	(13)
Accretion of discount	-	3,949	-
Balance at December 31, 2018	**89,910**	**78,390**	**12,843**
Accretion of discount	**-**	**1,036**	**-**
Balance at March 31, 2019	**89,910**	**79,426**	**12,843**

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at March 31, 2019. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price").

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

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

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) (note 14). At March 31, 2019, the fair value of the Debentures was $108.8 million (note 12).

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:

	March 31, 2019	December 31, 2018
Balance, beginning of period	**144,667**	136,928
Obligations incurred	**1,702**	8,244
Obligations acquired [note 4]	**297**	612
Obligations disposed [note 4]	**-**	(2,528)
Obligations settled	**(1,096)**	(1,122)
Changes in discount rate	**13,765**	4,786
Revisions to estimates	**1,407**	(5,446)
Accretion expense	**784**	3,193
Balance, end of period	**161,526**	144,667
Decommissioning obligations – current	**1,317**	904
Decommissioning obligations – non-current	**160,209**	143,763
Key assumptions		
Risk free rate	**1.90%**	2.18%
Inflation rate	**2.0%**	2.0%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2019, the undiscounted amount of the estimated cash flows required to settle the obligation is $155.6 million (December 31, 2018 – $153.4 million), and is expected to be incurred over the next 50 years. Based on an inflation rate of 2.0%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $307.3 million at March 31, 2019 (December 31, 2018 – $303.1 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

10. LEASE LIABILITY

	March 31, 2019
Balance, beginning of period [note 3]	**2,888**
Additions	**449**
Interest expense	**41**
Lease payments	**(361)**
Balance, end of period	**3,017**
Lease liability – current	**1,025**
Lease liability – non-current	**1,992**

The Company has lease liabilities for contracts related to drilling rigs, office space, field equipment, surface leases, and vehicle leases. The weighted average discount rate for the three months ended March 31, 2019 was 5.9 percent. Payments under the Company's short term leases were $2.3 million in the first quarter of 2019.

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 March 31, 2019 (December 31, 2018 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2017	178,858	1,078,773
Issued for cash through common share offerings	2,758	24,776
Deferred premium on flow-through shares	-	(3,099)
Conversion of convertible debentures to common shares	16	76
Transfer from equity component of convertible debentures on conversion of convertible debentures to common shares	-	13
Issued for cash on exercise of stock options	2,081	12,687
Transfer from contributed surplus on exercise of stock options	-	5,007
Released upon vesting of restricted share units	290	1,606
Share issue costs, net of deferred taxes ($224)	-	(607)
Balance at December 31, 2018	**184,003**	**1,119,232**
Issued for cash on exercise of stock options	**4**	**13**
Transfer from contributed surplus on exercise of stock options	**-**	**5**
Released upon vesting of restricted share units	**38**	**154**
Balance at March 31, 2019	**184,045**	**1,119,404**

Flow-through common shares

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities ("FTS") to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of December 31, 2018 all eligible expenditures for the Company's flow through shares issued in 2018 and in prior years have been incurred, and no FTS were issued in the first quarter of 2019.

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, 2017	9,894	6.51
Granted	2,590	5.29
Exercised (1)	(2,081)	6.10
Forfeited	(247)	6.94
Expired	(353)	8.42
Balance at December 31, 2018	**9,803**	**6.20**
Granted	**61**	**5.13**
Exercised (1)	**(4)**	**3.25**
Forfeited	**(45)**	**5.03**
Expired	**(759)**	**12.01**
Balance at March 31, 2019	**9,056**	**5.72**

(1) The weighted average share price on the date stock options were exercised during the period ended March 31, 2019 was $5.72 per common share ($7.74 per common share on average during the year ended December 31, 2018).

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

	Three months ended March 31	
	2019	2018
Risk free interest rate	**1.85**	1.8%
Expected life (years)	**4.2**	3.0
Expected volatility (1)	**46.0%**	49.9%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.8%**	4.6%
Fair value of options granted during the year ($/share)	**1.96**	2.38

(1) The expected volatility for options granted is estimated based on Kelt's historical share price volatility.

The following table summarizes information regarding stock options outstanding at March 31, 2019:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $5.00	5,054	3.1	4.63	2,333	4.48
$5.01 to $10.00	3,747	2.7	6.66	1,853	6.74
$10.01 to $15.00	195	0.2	12.77	195	12.77
$15.01 to $20.00	60	0.2	15.40	60	15.40
Total	**9,056**	**2.9**	**5.72**	**4,441**	**5.94**

Restricted share units

Kelt has a restricted share unit plan that provides for granting of restricted share units ("RSUs") to officers, employees and certain consultants. The RSUs granted under the RSU Plan are to be settled through the issuance of new common shares upon vesting. RSUs typically vest in two equal tranches with the first half vesting after two years and the second half after three years.

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2017	793
Granted	625
Released upon vesting	(290)
Forfeited	(31)
Balance at December 31, 2018	**1,097**
Granted	**9**
Released upon vesting	**(38)**
Forfeited	**(12)**
Balance at March 31, 2019	**1,056**

Share based compensation expense

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

	Three months ended March 31	
	2019	2018
Stock options	**1,116**	**1,142**
Restricted share units	**762**	**446**
Total share based compensation expense	**1,878**	**1,588**

Per share amounts

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

	Three months ended March 31	
(000s of common shares)	**2019**	2018
Weighted average common shares outstanding, basic	**184,017**	180,125
Effect of stock options and RSUs	**600**	1,581
Weighted average common shares outstanding, diluted	**184,617**	181,706

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. Accordingly, in computing the diluted profit or loss per common share for the periods ended March 31, 2019 and 2018, the Company excluded the effect of stock options and RSUs as they were anti-dilutive. The common shares potentially issuable on conversion of the Debentures are also excluded as they were determined to be anti-dilutive for the quarter ended March 31, 2019.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

As at March 31, 2019, the following commodity price risk management contracts outstanding:

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

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. Based on average bank debt outstanding of $184.1 million during the first quarter of 2019, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) interest expense by $0.5 million.

As at March 31, 2019, 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 March 31, 2019, the following foreign exchange risk management contracts outstanding:

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

Gains and losses on risk management contracts

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

	Three months ended March 31	
	2019	2018
Realized loss	**(812)**	-
Unrealized loss	**(2,629)**	-
Loss on derivative financial instruments	**(3,441)**	-

Fair value measurements

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

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

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

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

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at March 31, 2019:

	Carrying Value ("CV")			Fair Value		
	Gross	Netting[1]	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	209	-	-	-	209	-
Investment in securities	1,600	-	-	-	-	1,600
Financial liabilities						
Derivative financial instrument	242	-	-	-	242	-
Convertible debentures [note 8]	79,426	-	-	108,791	-	-

(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.

Kelt's investment in securities includes an investment in a private corporation entered into during the first quarter of 2018. The estimated fair value of the Company's investments in the shares of private companies is based on equity issuances and other indications of value from time-to-time (level three fair value hierarchy inputs). During the first quarter of 2019 the Company recognized a gain of its investment in securities of $0.6 million as a result of an equity issuance.

The fair value of the convertible debentures of $108.8 million as at March 31, 2019, is based on the closing market price of $121.00 per Debenture, being the price at which the Debentures last traded in the year, and represents the market value of the entire instrument. As at December 31, 2018, the fair value was $99.6 million based on the closing market price of $110.73 per Debenture.

Credit Risk

As at March 31, 2019, the carrying amount of cash and cash equivalents, accounts receivable and accrued revenue, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

Accounts receivable and accrued revenue	**March 31, 2019**	December 31, 2018
Joint venture partners	**2,991**	3,672
Oil and gas marketers	**38,704**	35,129
GST input tax credits	**6,692**	4,559
Risk management contracts	**125**	-
Other	**63**	2,820
Accounts receivable and accrued revenue	**48,575**	46,180

During the quarter ended March 31, 2019, sales to three oil and gas marketers each individually represented more than 10% of total revenue. Sales to these marketers account for approximately 31%, 27%, and 11%, of total revenue, respectively. During the comparative period ended December 31, 2018, sales to three oil and gas marketers accounted for approximately 40%, 18%, and 11% of total revenue, respectively. Kelt's oil and gas marketers have provided parental guarantees (with terms ranging from two to five years), or have been rated investment-grade by a reputable ratings agency for substantially all of the Company's monthly credit exposure.

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

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

The aging of the Company's accounts receivable and the loss allowance provision is determined as follows:

Accounts receivable and accrued revenue	Current	30-60 days	60-90 days	Over 90 days	Total
Gross accounts receivable	46,674	712	13	1,696	49,095
Estimated credit loss rate	0.3%	3.8%	7.3%	19.8%	
Loss allowance provision	(157)	(27)	(1)	(335)	(520)
Balance at March 31, 2019	**46,517**	**685**	**12**	**1,361**	**48,575**
Balance at December 31, 2018	43,537	932	585	1,126	46,180

The allowance provision as at March 31, 2019 reconciles to the opening loss allowance as at January 1, 2019 in the following table:

	Amount ($ thousands)
Allowance for doubtful accounts at January 1, 2018	666
Direct write-off (recovery) of amounts included in provision	(128)
Allowance for doubtful accounts at December 31, 2018	**538**
Provisions for potential credit losses through profit or loss	**(18)**
Loss allowance balance at March 31, 2019	**520**

During the quarter ended March 31, 2019, the Company's recognized a decrease in the loss allowance provision resulting in a recovery in the statement of Consolidated Statement of Profit (Loss) and Comprehensive Income of $0.018 million (December 31, 201 – recovery $0.1 million).

Liquidity Risk

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

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, during such periods, the Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at March 31, 2019, the Company's working capital deficit of $65.3 million combined with outstanding bank debt of $193.3 million, represented 82% of the authorized borrowing amount available under the Credit Facility of $315.0 million (up from 79% at December 31, 2018). The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2020, and may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at March 31, 2019:

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	115,667	-	-	**115,667**
Derivative financial instruments	242	-	-	**242**
Bank debt and estimated interest(1)	7,733	193,322	-	**201,055**
Convertible debentures(2)	4,508	95,157	-	**99,665**
Lease liability	1,025	1,864	128	**3,017**
Total	**129,175**	**290,343**	**128**	**419,646**

(1) Estimated interest for future periods related to the Credit Facility was calculated using the weighted average interest rate of 4.0% for the quarter ended March 31, 2019, applied to the principal balance outstanding as at that date. For purposes of this analysis, principal repayment of the Company's revolving Credit Facility is assumed to occur on April 30, 2020.

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

Capital Management

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

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

	March 31, 2019	December 31, 2018
Bank debt	**193,322**	168,881
Working capital deficiency	**65,029**	27,535
Net debt (1)	**258,351**	196,416
Trailing annualized adjusted funds from operations (2)(3)	**205,764**	186,839
Net bank debt to trailing adjusted funds from operations ratio (1)	**1.3**	1.1

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

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

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

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

The Company's net bank debt to trailing adjusted funds from operations ratio of 1.3 times increased as at March 31, 2019 from 1.1 times at December 31, 2018.

As more particularly described in note 7, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at March 31, 2019, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

13. REVENUE

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the quarter ending March 31, 2019, transportation costs incurred in relation to these contracts was $6 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 2020.

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

	Three months ended March 31	
	2019	**2018**
Revenue, before royalties and financial instruments:		
Oil production	**45,909**	51,418
Oil treating and other	**190**	592
NGLs production	**8,854**	9,459
Gas production	**39,188**	25,410
Gas processing and other	**281**	604
Marketing revenue	**8,163**	2,510
Total revenue	**102,585**	89,993

Included in accounts receivable at March 31, 2019 is $38.7 million (December 31, 2018 - $35.1 million) of accrued oil and gas sales related to March 2019 production.

14. FINANCING EXPENSES

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

	Three months ended March 31	
	2019	2018
Interest on bank debt [note 7]	**1,998**	**1,230**
Interest on convertible debentures [note 8]	**1,108**	**1,110**
Interest on finance leases [note 10]	**41**	**-**
Accretion of convertible debentures [note 8]	**1,036**	**926**
Accretion of decommissioning obligations [note 9]	**784**	**769**
Financing expense	**4,967**	**4,035**

15. COMMITMENTS

As of March 31, 2019, the Company is committed to future payments under the following agreements:

	2019	2020	2021	2022	2023	Thereafter
Firm processing commitments	10,511	13,386	19,481	20,429	19,073	106,952
Firm transportation commitments (1)	33,498	27,515	23,001	22,304	19,423	157,145
Total annual commitments	**44,009**	**40,901**	**42,482**	**42,733**	**38,496**	**264,097**

(1) A portion of Kelt's commitments on the Alliance pipeline are denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2020, respectively. Amounts are translated to Canadian dollars at the spot rate on March 29, 2019 of CA$/US$1.3363.

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases on the balance sheet some of which were previously reported as commitments. See note 3 for a reconciliation from the commitments as at December 31, 2018 to Kelt's lease liabilities as at January 1, 2019.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2019**	2018
Accounts receivable and accrued revenue	**(2,395)**	(2,825)
Prepaid expenses and deposits	**402**	19
Accounts payable and accrued liabilities	**32,137**	9,449
Change in non-cash working capital	**30,144**	6,643
Relating to:		
Operating activities	**3,450**	8,526
Investing activities	**26,694**	(1,883)
Change in non-cash working capital	**30,144**	6,643

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

	Three months ended March 31	
Cash outlays in respect of interest and taxes	**2019**	2018
Interest and standby fees on bank debt	**3,613**	1,842
Interest on convertible debentures (1)	**-**	-
Taxes (2)	**-**	-

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

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

17. RELATED PARTY TRANSACTIONS

A director of the Company is also a partner at a law firm which Kelt has engaged to provide legal services. During the three months ended March 31, 2019, the Company incurred $0.2 million (2018 – $0.2 million) in legal fees and disbursements. The Company expects to continue using the services of this law firm from time to time.

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
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

Robert J. Dales [2, 3, 4, 7]
President, Valhalla Ventures Inc.

Geri L. Greenall [2, 3, 6]
Chief Financial Officer, Chief Compliance Officer, & Portfolio Manager, Camber Capital Corp.

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

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

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

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

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

Douglas J. Errico
Vice President, Land

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

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

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Convertible Debentures “KEL.DB”

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