FIRST QUARTER REPORT

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2020

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

(CA$ thousands, except as otherwise indicated)	Three months ended March 31 2020	2019	%
FINANCIAL			
Petroleum and natural gas sales	**70,918**	**102,585**	-31
Cash provided by operating activities	**50,172**	**53,813**	-7
Adjusted funds from operations (1)	**27,360**	**51,459**	-47
Basic ($/ common share) (1)	**0.15**	**0.28**	-46
Diluted ($/ common share) (1)	**0.15**	**0.28**	-46
Profit (loss) and comprehensive income (loss)	**(74,085)**	**9,369**	-891
Basic ($/ common share)	**(0.39)**	**0.05**	-880
Diluted ($/ common share)	**(0.39)**	**0.05**	-880
Total capital expenditures, net of dispositions	**91,126**	**107,962**	-16
Total assets	**1,608,870**	**1,515,227**	6
Net bank debt (1)	**344,664**	**258,351**	33
Convertible debentures	**83,957**	**79,426**	6
Shareholders' equity	**850,486**	**904,835**	-6
Weighted average shares outstanding (000s)			
Basic	**187,794**	**184,017**	2
Diluted	**187,940**	**184,617**	2
OPERATIONS			
Average daily production			
Oil (bbls/d)	**9,684**	**7,806**	24
NGLs (bbls/d)	**4,583**	**3,903**	17
Gas (mcf/d)	**99,236**	**92,089**	8
Combined (BOE/d)	**30,806**	**27,057**	14
Production per million common shares (BOE/d) (1)	**164**	**147**	12
Average realized prices, before financial instruments (1)			
Oil ($/bbl)	**45.58**	**67.17**	-32
NGLs ($/bbl)	**14.37**	**25.20**	-43
Gas ($/mcf)	**2.35**	**5.18**	-55
Operating netbacks ($/BOE) (1)			
Petroleum and natural gas revenue	**25.30**	**42.12**	-40
Cost of purchases	**(1.25)**	**(1.48)**	-16
Average realized price, before financial instruments (1)	**24.05**	**40.64**	-41
Realized gain (loss) on financial instruments	**2.60**	**(0.33)**	-888
Average realized price, after financial instruments (1)	**26.65**	**40.31**	-34
Royalties	**(1.02)**	**(2.01)**	-49
Production expense	**(10.85)**	**(10.14)**	7
Transportation expense	**(3.50)**	**(4.77)**	-27
Operating netback (1)	**11.28**	**23.39**	-52
Total landholdings			
Gross acres	**1,051,212**	**1,060,937**	-1
Net acres	**819,285**	**827,672**	-1

(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, 2020. In addition, Kelt is providing a corporate update in response to the current market conditions resulting from the COVID-19 pandemic.

Kelt's highest priority remains the health and safety of its employees, partners and the communities where it operates. The Company has introduced measures to protect the well-being of these stakeholders and is proud of the dedication of its workforce to maintain safe operations and business continuity in a challenging environment.

The unprecedented impact to global oil demand destruction resulting from the COVID-19 pandemic, as well as excess oil supplies, as many oil producing nations sought to gain global market share, has resulted in a collapse in crude oil prices around the world. Many regions around the world may be facing the prospect of shutting-in oil production in the near term as access to physical storage facilities becomes unavailable.

Kelt has taken measures to preserve shareholder value by entering into commodity price, currency and interest rate hedge contracts; by reducing planned capital expenditures and by implementing various cost cutting measures that will result in lower operating and G&A expenses during the remainder of 2020. In addition, Kelt is taking measures to reduce production levels to protect against selling oil at negative margins and to preserve value. With cash flow protection from Kelt's financial hedge book during the second quarter of 2020, the Company has shut-in approximately 8,000 BOE per day of production (approximately 62% is oil and NGLs and 38% is gas). Kelt expects to bring back shut-in production starting in the third quarter of 2020 as commodity prices improve. As a result of cost cutting measures and the shut-in of lower netback production, Kelt expects a reduction in operating expenses in 2020 to $8.74 per BOE compared with $9.18 per BOE in 2019.

In order to protect cash flow in the near term as commodity prices continue to fluctuate at higher than historic margins, Kelt has the following hedge positions in place during the second quarter of 2020:

- 4,000 barrels per day of WTI crude oil fixed at a price of CAD $77.55 per barrel for the months from April to June 2020;
- 3,355 barrels per day of WTI crude oil fixed at a price of CAD $29.05 per barrel for the month of May 2020;
- 4,000 barrels per day of MSW crude oil fixed at a price of CAD $27.50 per barrel for the month of June 2020;
- 3,000 barrels per day for the differential between WTI and MSW crude oil fixed at an amount of CAD $6.40 per barrel;
- 1,000 barrels per day for the differential between WTI and MSW crude oil fixed at an amount of USD $4.60 per barrel;
- 45,000 MMBtu per day of NYMEX Henry Hub natural gas fixed at a price of CAD $2.83 per MMBtu for the months from April to November 2020; and
- 500 barrels per day of OPIS Conway propane fixed at a price of CAD $23.35 per barrel for the months from April to December 2020.

Average production for the three months ended March 31, 2020 was 30,806 BOE per day, up 14% from average production of 27,057 BOE per day during the first quarter of 2019. Production for the three months ended March 31, 2020 was weighted 46% oil and NGLs and 54% gas.

Kelt's realized average oil price during the first quarter of 2020 was $45.58 per barrel, down 32% from $67.17 per barrel in the first quarter of 2019. The realized average NGLs price during the first quarter of 2020 was $14.37 per barrel, down 43% from $25.20 per barrel in the same quarter of 2019. Kelt's realized average gas price for the first quarter of 2020 was $2.35 per Mcf, down 55% from $5.18 per Mcf in the corresponding quarter of the previous year.

For the three months ended March 31, 2020, revenue was $70.9 million and adjusted funds from operations was $27.4 million ($0.15 per share, diluted), compared to $102.6 million and $51.5 million ($0.28 per share, diluted) respectively, in the first quarter of 2019. At March 31, 2020, net bank debt, was $344.7 million, up from $258.4 million at March 31, 2019. The Company and its lenders have agreed to extend the revolving period under its credit facility agreement from

April 30, 2020 to May 31, 2020. Kelt expects to pursue additional opportunities to access credit support during this uncertain economic environment created by the COVID-19 crisis that is being offered by the Government of Canada, through the Business Development Bank of Canada (BDC) and Export Development Canada (EDC) as announced by the Government on April 17, 2020.

Net capital expenditures incurred during the three months ended March 31, 2020 were $91.1 million. During the first quarter of 2020, the Company spent $51.7 million on drill and complete operations and $39.6 million on equipment, facilities and pipelines. Major infrastructure projects that commenced construction in 2019 are now completed. At Inga, construction of the 40-kilometre, 16-inch pipeline that will have the capability to transport 300 MMCF per day of natural gas from the Company's Inga 2-10 facility to the newly constructed AltaGas Townsend Deep-Cut Gas Plant ("Townsend Gas Plant") has been completed. Kelt expects to commence gas deliveries to the Townsend Gas Plant in the next week. At Fireweed, the Company has completed installation of its extensive infrastructure including a pipeline gathering system which connects two 5-well pads. The first 5-well pad was drilled during the first quarter of 2020, and the second 5-well pad has been constructed waiting on drilling operations to commence after a recovery in commodity prices. Kelt has begun to receive recoveries on the $15.0 million credit under the British Columbia Infrastructure Royalty Credit Program that is associated with this infrastructure project at Fireweed. At Wembley, Kelt has completed the construction of a pipeline and related infrastructure that connects the Company's La Glace 14-29 facility to the Tidewater Pipestone Sour Deep-Cut Gas Processing Plant ("Pipestone Plant"). Kelt's production from La Glace that had previously been shut-in due to restricted access to the Ovintiv Sexsmith Gas Plant can now be diverted to the Pipestone Plant.

As a result of the significant ongoing uncertainty in market conditions, Kelt has withdrawn its 2020 corporate guidance. In this regard, the Company currently has no immediate plans to start up drilling and completion operations on wells until there is better clarity on future commodity prices which have been negatively impacted by global oil demand destruction as a result of the COVID-19 pandemic. Capital expenditures in the second quarter are expected to be less than $20.0 million and will be limited to the completion of existing facility and pipeline projects. For the second half of 2020, capital expenditures are currently expected to be less than $5.0 million.

Kelt will continue to reassess its ability to reasonably estimate and provide annual guidance and plans to continue to provide corporate updates during this period of heightened volatility and uncertainty.

Management looks forward to updating shareholders with 2020 second quarter results on or about August 6, 2020.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
May 7, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources in Western Canada. Kelt's business plan is for long-term profitable growth by implementing a full cycle exploration program, with emphasis on low-cost land accumulation in resource-style plays with the potential for high rates of return on capital invested and rapid growth of its drilling inventory portfolio. Kelt has an active exploration and development drilling program that it may complement with acquisitions and dispositions that optimize its asset base.

The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012. Kelt's assets are comprised of four core operating divisions, namely: (1) Wembley/Pipestone in Alberta; (2) Pouce Coupe/Progress in Alberta; (3) Inga/Fireweed in British Columbia; and (4) Oak/Flatrock in British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd. ("Kelt LNG"), a wholly owned subsidiary of Kelt. The head office of the Company is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2. The Company's common shares 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 7, 2020 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, 2020 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2019. 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 for issue on May 7, 2020.

GENERAL ADVISORY

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

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

BASIS OF PRESENTATION

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

References to “liquids” include field condensate and NGLs. References to “gas” include natural gas and sulphur.

COVID 19

On January 30, 2020 the World Health Organization (“WHO”) declared a Public Health Emergency of International Concern for a new novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic and governments around the world have imposed significant public health measures in order to reduce its spread. Current forecasts estimate an unprecedented global crude oil demand reduction for 2020 that has resulted in a significant decrease in current and future crude oil prices. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve.

Lower commodity prices resulted in a significant decrease in the Company’s Petroleum and Natural Gas Sales in the first quarter of 2020 and reduced the outlook for the remainder of 2020 based on current strip prices for crude oil. As a result of the significant uncertainty in market conditions, Kelt withdrew its 2020 corporate guidance in a press release dated April 23, 2020. The corporate guidance was previously included in its management discussion and analysis for the year ended December 31, 2019 dated March 9, 2020 and later updated in a press release dated March 9, 2020. It remains uncertain how long current market conditions will persist. To preserve the value of its oil and gas reserves and to manage debt levels Kelt has placed on hold any previous planned drilling and completion operations, increased its 2020 hedge position, reduced general and administrative expenses and is taking measures to reduce production levels.

FINANCIAL AND OPERATING SUMMARY

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%
FINANCIAL PERFORMANCE			
Petroleum and natural gas sales	**70,918**	102,585	-31
Cash provided by operating activities	**50,172**	53,813	-7
Adjusted funds from operations (1)	**27,360**	51,459	-47
Diluted ($/ common share) (1)	**0.15**	0.28	-46
Profit (loss) and comprehensive income (loss)	**(74,085)**	9,369	-891
Diluted ($/ common share)	**(0.39)**	0.05	-880
Total capital expenditures, net of dispositions	**91,126**	107,962	-16
Net bank debt (1)	**344,664**	258,351	33
OPERATIONAL PERFORMANCE			
Average daily production (BOE/d)	**30,806**	27,057	14
Average realized price, before financial instruments (1)	**24.05**	40.64	-41
Average realized price, after financial instruments (1)	**26.65**	40.31	-34
Operating netback (1)	**11.28**	23.39	-52

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

In the first quarter of 2020, Kelt's financial and operating results are highlighted by the following:

- Average production was 30,806 BOE per day (46% oil/NGLs), increased 14% compared to the first quarter of 2019 of 27,057 BOE per day (43% oil/NGLs) and decreased 1% from 31,262 BOE per day (47% oil/NGLs) in the fourth quarter of 2019.
- Petroleum and natural gas sales for the three months ended March 31, 2020 was $70.9 million, down 31% from $102.6 million in the same quarter of 2019. Kelt's average realized price before financial instruments of $24.05 per BOE during the first quarter of 2020 is 41% lower and 26% lower than the average realized price before financial instruments in the first quarter of 2019 and the fourth quarter of 2019, respectively. The decrease in revenue for the first quarter of 2020 compared to the first quarter of 2019 is primarily due to higher natural gas prices in 2019 as a result of a cold winter heating season and lower than historical storage volumes. The COVID-19 pandemic also resulted in an approximate 50% decrease in crude oil prices for March. The decreases in commodity prices are partially offset by a 14% increase in production in 2020 compared to the first quarter of 2019.
- Kelt's operating netback was $11.28 per BOE for the quarter ended March 31, 2020, down 40% from $18.65 per BOE during the quarter ended December 31, 2019 and down 52% from $23.39 per BOE during the quarter ended March 31, 2019. The decrease in the operating netback was driven primarily by a decrease in petroleum and natural gas sales. The decrease in sales was partially offset by an increase on the Company's derivative financial instruments which realized a gain of $2.60 per BOE during the first quarter of 2020.
- Capital expenditures before minor property acquisitions and dispositions incurred during the three months ended March 31, 2020 were $93.2 million, which focused on development drilling on the Company's Montney acreage at Inga/Fireweed and Oak. Drilling and completion expenditures of $51.7 million primarily included the drilling of 9.0 net wells, and the completion of 7.0 net wells.
- In March 2020, Kelt received $28.7 million of financing from a third party for Kelt's two-thirds ownership share in the construction of a 16-inch gas pipeline from its Inga 2-10 facility to a third party's gas processing facility. The financing liability will be re-paid over a ten year period.
- The Company has obtained approval from its lenders to extend its semi-annual borrowing base review to May 31, 2020 from April 30, 2020. Net bank debt was $344.7 million at March 31, 2020 (3.1 times annualized quarterly adjusted funds from operations) compared to a senior credit facility of $350.0 million.
- During the first quarter of 2020, Kelt obtained $1.1 million in royalty credits under the British Columbia Infrastructure Royalty Credit Program.

PRODUCTION

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%
Average daily production:			
Oil (bbls/d)	**9,684**	7,806	24
NGLs (bbls/d)	**4,583**	3,903	17
Gas (mcf/d)	**99,236**	92,089	8
Combined (BOE/d)	**30,806**	27,057	14
Oil and NGLs weighting	**46%**	43%	7

Average production for the three months ended March 31, 2020 increased 14% as compared to the same period in 2019 and decreased 1% compared to the average production during the fourth quarter of 2019.

The increase in production from the first quarter of 2019 was primarily driven by the Company's 2019 drilling program targeting multiple zones of its oil and condensate rich Montney acreage at Inga/Fireweed and Wembley/Pipestone. In the first quarter of 2020, the Company finished completing the last of its 6 wells on its 24 well pad at Inga/Fireweed. At Wembley/Pipestone, overall production increased in the first quarter of 2020 compared with the fourth quarter of 2019; however, third party plant downtimes at Wembley/Pipestone continued to impact first quarter of 2020 production.

Due to rapid decrease in benchmark crude oil prices as a result of the COVID-19 pandemic, Kelt began to manage its production in March 2020 while also deferring the drilling of new wells and the completion of previously drilled wells. Kelt has deferred the completion of five wells at Fireweed and four wells at Oak/Flatrock This reduction in production is expected to continue while crude oil prices remain depressed as the Company strives to preserve the value of its oil and gas reserves.

Oil and NGLs weighting of total production increased in 2020 to 46% during the first quarter of 2020 compared to 43% in the comparable period of 2019 and decreased compared to 47% the fourth quarter of 2019.

REVENUE

All references to revenue in this discussion are before royalties.

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%
Revenue, before royalties and financial instruments:			
Oil	**40,098**	46,099	-13
NGLs	**5,991**	8,854	-32
Gas	**21,616**	39,469	-45
Revenue, before marketing	**67,705**	94,422	-28
Marketing revenue (2)	**3,213**	8,163	-61
Total revenue (1)	**70,918**	102,585	-31
Cost of purchases (3)	**(3,517)**	(3,608)	-3
Kelt Revenue (4)	**67,401**	98,977	-32
Average realized prices (5)			
Oil ($/bbl)	**45.58**	67.17	-32
NGLs ($/bbl)	**14.37**	25.20	-43
Gas ($/mcf)	**2.35**	5.18	-55
Combined ($/BOE)	**24.05**	40.64	-41

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

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

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

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

(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 and natural gas marketing activities (2)(3). Refer to additional information under the heading of *“Non-GAAP Financial Measures and Other Key Performance Indicators”*.

Revenue before marketing for the first quarter of 2020 was $67.7 million, down 28% from $94.4 million from the first quarter of 2019. The decrease in revenue is driven primarily by lower combined average realized prices, which decreased 41% to $24.05 per BOE in the first quarter of 2020 compared to $40.64 per BOE during the first quarter of 2019. The decrease in revenue is partially offset by a 14% increase in production in the first quarter of 2020 compared to the first quarter of 2019.

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.

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%
Oil production (average bbls per day)	**9,684**	7,806	24
Oil revenue, before marketing	**40,098**	46,099	-13
Marketing revenue, net of cost of purchases (1)	**60**	1,088	-94
Kelt Oil Revenue	**40,158**	47,187	-15
Average realized oil prices ($/bbl) (2)(3)			
Before financial instruments	**45.58**	67.17	-32
Realized gain (loss) on financial instruments	**8.50**	-	-
After financial instruments	**54.08**	67.17	-19
Average realized price, percentage of MSW (7) (8)	**105%**	101%	
Benchmark oil prices:			
WTI Cushing Oklahoma (US$/bbl) (5)	**45.81**	54.83	-16
WTI Cushing Oklahoma (CA$/bbl) (5)	**61.13**	72.88	-16
Mixed Sweet Blend Edmonton (“MSW”) ($/bbl) (4)	**51.43**	66.53	-23
MSW % of CA$WTI	**84%**	91%	-8
Average exchange rate (CA$/US$) (6)	**1.3442**	1.3292	1

(1) Marketing revenue, net of costs of purchases, relates 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 the Company’s oil blending operations.

(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.

(7) Mixed Sweet Blend (“MSW”).

(8) Average realized oil prices after financial instruments, divided by the CA$MSW reference price for the period.

Kelt realized an average oil price before financial instruments of $45.58 per barrel during the three months ended March 31, 2020, down 32% from $67.17 per barrel during the comparative period of 2019. As a result of the COVID-19 pandemic, crude oil prices decreased approximately 50% in March 2020 from the previous month. The decrease in commodity prices is partially offset by a 24% increase in production in 2020 compared to the first quarter of 2019.

The average premium of Kelt’s realized oil price relative to the MSW reference price was $2.65 per barrel (5% of MSW) during the first quarter of 2020 compared to an average premium of $0.64 per barrel (1% of MSW) during the first quarter of 2019.

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)	**2020**	2019	%
NGLs production (average bbls per day)	**4,583**	3,903	17
NGLs barrels per mmcf of natural gas sales	**46**	42	10
NGLs revenue	**5,991**	8,854	-32
Average realized NGLs price ($/bbl)	**14.37**	25.20	-43
Average realized price, percentage of CA$WTI (1)	**24%**	35%	
Benchmark NGLs prices (2) ($/bbl):			
Edmonton Pentane	**60.25**	68.63	-12
% of CA$WTI	**99%**	94%	5
Edmonton Butane	**34.65**	5.91	486
% of CA$WTI	**57%**	8%	613
Edmonton Propane	**14.25**	16.39	-13
% of CA$WTI	**23%**	22%	5
Edmonton Ethane	**5.62**	9.90	-43
% of CA$WTI	**9%**	14%	-36

(1) Average realized NGLs price, divided by the CA$WTI reference price for the period.

(2) Source: Sproule Associates Limited.

Kelt realized an average price before financial instruments for its NGL sales of $14.37 per barrel (24% of CA$WTI) during the first quarter of 2020, down 43% from $25.20 per barrel (35% of CA$WTI) during the first quarter of 2019. The decrease in Pentane prices of 12% in the first quarter of 2020 compared to the first quarter of 2019 was primarily driven by a reduction in benchmark WTI prices.

Starting in the second quarter of 2020, Kelt has secured the sale of propane volumes to the AltaGas Ridley Island Facility, giving Kelt access to a Far East Propane Index pricing netback which will reduce the Company's exposure to the Western Canadian NGLs pricing hubs. Kelt also expects its realized Butane price in the second quarter of 2020 to more closely reflect the increase in benchmark Butane prices as a percentage of benchmark WTI prices, which increased in the first quarter of 2020 versus the comparable quarter of 2019.

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)	**2020**	2019	%
Gas production (MCF per day)	**99,236**	92,089	8
Gas revenue, before marketing	**21,616**	39,469	-45
Marketing revenue, net of cost of purchases [10]	**(364)**	3,467	-110
Kelt Gas Revenue	**21,252**	42,936	-51
Average realized gas price ($/MCF)			
Before financial instruments	**2.35**	5.18	-55
Realized gain (loss) on financial instruments	**(0.02)**	(0.10)	-80
After financial instruments	**2.33**	5.08	-54
Kelt average premium to AECO 5A [1]	**16%**	130%	
Benchmark gas prices:			
NYMEX Henry Hub (US$/MMBtu) [2]	**1.98**	3.12	-37
Average exchange rate (CA$/US$) [3]	**1.3442**	1.3292	1
NYMEX Henry Hub (CA$/MMBtu) [2]	**2.66**	4.15	-36
AECO 5A (CA$/MMBtu) [4]	**2.03**	2.25	-10
Chicago-City Gate (CA$/MMBtu) [5]	**2.34**	4.10	-43
Dawn (CA$/MMBtu) [6]	**2.36**	3.87	-39
Malin (CA$/MMBtu) [7]	**3.03**	5.16	-41
Sumas (CA$/MMBtu) [8]	**3.52**	5.32	-34
Station 2 (CA$/MMBtu) [9]	**1.98**	1.31	51

(1) Kelt's average premium, 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: Tidal Natural Gas Monthly Market Update (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) Marketing revenue, net of cost of purchases, relates to the purchase and resale of third-party volumes.

Natural gas revenue before marketing decreased 45% to $21.6 million in the first quarter of 2020 as compared to the same period in 2019. In the first quarter of 2020 Kelt's realized price before financial instruments of $2.35 per MMBtu was a 16% premium to the AECO 5A gas reference price of $2.03 per MMBtu, compared to a 130% premium Kelt obtained in the first quarter of 2019.

Historically Kelt's natural gas sales price has been at a premium to the AECO 5A benchmark price primarily due to its gas marketing arrangements which exposes Kelt to markets outside of BC and Alberta. In the first quarter of 2020, Kelt's natural gas sold at U.S. indices comprised 60 percent of natural gas sales from 95 percent in the first quarter of 2019. In the first quarter of 2020, most of the US price indices underperformed AECO due to concerns about storage levels during a warm winter heating season and high U.S. natural gas supply. As a result, Kelt's natural gas sales price was a premium to AECO of 16 percent in the first quarter of 2020. Comparatively, in the first quarter of 2019 many US markets experienced higher natural gas prices due to a cold winter heating season and lower than historical storage volumes resulting in Kelt's sales price obtaining a 130 percent premium to AECO.

North American supply growth in 2019 along lower demand during a warm winter allowed natural gas inventories to build at a rate greater than the historical average during the 2019 storage injection season, placing downward pressure on the US natural gas prices. This resulted in a 37% decrease in NYMEX Henry Hub benchmark prices in the first quarter of 2020 compared to the first quarter of 2019, versus a 10% decrease in AECO 5A prices and a 51% increase in Station 2 prices in the same period.

Due to an increase in the relative AECO and Station 2 benchmark prices in the fourth quarter of 2019, Kelt did not renew some of its firm transportation exposure to the Chicago market, with the Company currently expecting approximately 50% of its 2020 average gas sales at the AECO and Station 2 price hubs, compared to approximately 6% in 2019. As a result of decreasing the Company's exposure to the Chicago market, transportation expenses also decreased resulting in an overall increase in adjusted funds from operations.

ROYALTIES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Royalties	**2,870**	4,907	-42
Average royalty rate (1)	**4.2%**	5.2%	-19
$ per BOE	**1.02**	2.01	-49

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

Kelt's average royalty rate was 4.2% during the first quarter of 2020, compared to 5.2% during the first quarter of 2019. The primary reason for the decrease in the average royalty rate in 2020 was due to a $1.1 million royalty credit from the BC Infrastructure Royalty Credit Program. The credit is applied against royalties as they are incurred, resulting in a lower average royalty rate when compared to the same period in 2019.

PRODUCTION EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Production expense (1)	**30,404**	24,698	23
$ per BOE	**10.85**	10.14	7

The Company incurred total production expenses of $30.4 million during the first three months of 2020, up 23% from the comparative quarter. Production expenses averaged $10.85 per BOE during the first three months of 2020, compared to $10.14 per BOE in the same period in 2019. Expenses increased on a per BOE basis as the Company increased its production optimization maintenance work as it brought on-stream new wells and facilities at its Inga/Fireweed and Wembley areas.

TRANSPORTATION EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Transportation expense (1)	**9,804**	11,619	-16
$ per BOE	**3.50**	4.77	-27

(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.

In the fourth quarter of 2019 several gas transportation contracts to deliver natural gas on the Alliance pipeline to

Chicago expired reducing transportation expense to $3.50 per BOE in the first quarter of 2020, a decrease of 27% from $4.77 per BOE compared to the first quarter of 2019. Kelt chose not to renew a large portion of its firm deliveries to Chicago due to the relative strength of benchmark pricing at the Station 2 and AECO 5a markets.

FINANCING EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Interest on bank debt	**3,182**	1,834	74
Fees on bank debt	**166**	164	1
Interest on convertible debentures	**1,121**	1,108	1
Interest on finance lease	**56**	41	37
Interest on financing liability	**34**	-	-
Total interest expense	**4,559**	3,147	45
Accretion of convertible debentures	**1,168**	1,036	13
Accretion of decommissioning obligations	**693**	784	-12
Total financing expense	**6,420**	4,967	29
Interest expense per BOE (1)	**1.63**	1.29	26
Average principal amount outstanding during period:			
Bank debt	**305,301**	184,133	66
Convertible debentures	**89,910**	89,910	-
Average total principal amount of debt outstanding	**395,211**	274,043	44
Average interest rates:			
Bank debt (2)	**4.2%**	4.0%	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 and accrued cash interest on convertible debentures.

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

The Company's average bank debt outstanding increased for the first quarter of 2020 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)	**2020**	2019	%
Salaries and benefits	**1,914**	2,834	-32
Other G&A expenses	**1,786**	1,478	21
Gross G&A expenses	**3,700**	4,312	-14
Overhead recoveries	**(1,888)**	(1,739)	9
G&A expense, net of recoveries	**1,812**	2,573	-30
Gross G&A ($ per BOE)	**1.32**	1.77	-25
Net G&A ($ per BOE)	**0.65**	1.06	-39

G&A expense, net of recoveries, averaged $0.65 per BOE during the first quarter of 2020, a decrease of 39% compared to $1.06 per BOE during the first quarter of 2019. The decrease in gross G&A expenses during the first quarter of 2020 compared to the first quarter of 2019 is primarily driven by a decrease in employee compensation. On a BOE basis, the decrease is a combination of a decrease in G&A expense, net of recoveries and an increase in production for the quarter ended March 31, 2020.

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

SHARE BASED COMPENSATION (“SBC”)

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Stock options	**842**	1,116	-25
Restricted share units (“RSUs”)	**667**	762	-12
Total SBC expense	**1,509**	1,878	-20
$ per BOE	**0.54**	0.77	-30

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

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

EXPLORATION AND EVALUATION (“E&E”) EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Expired mineral leases	**320**	273	17
$ per BOE	**0.11**	0.11	-

The Company expensed $0.3 million of costs related to the expiry of non-core land holdings during the first quarter of 2020, which is consistent with lease expiries expensed in first quarter of 2019. The lease expiries 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)	**2020**	2019	%
Depletion and depreciation	**38,956**	33,916	15
Impairment	**77,100**	-	-
Total depletion, depreciation and impairment	**116,056**	33,916	242
Depletion and depreciation ($/BOE)	**13.90**	13.93	-
Impairment ($/BOE)	**27.50**	-	-

Depletion and depreciation was $39.0 million for the quarter ended March 31, 2020 compared to $33.9 million in 2019. On a per BOE basis, total depletion and depreciation per BOE was consistent, with the increase in depletion expense primarily due to higher production in the first quarter of 2020.

As at March 31, 2020, as a result of the COVID-19 pandemic and a resulting collapse in global crude oil demand, commodity price forecasts significantly decreased since December 31, 2019. As such, an impairment test was conducted over all Kelt's CGUs; however no impairment was recognized for the Company’s CGU in British Columbia as the estimated recoverable amount significantly exceeded its carrying value.

Based on the impairment test performed on the Alberta CGU, it was determined that the carrying value was in excess of the recoverable amount resulting in an impairment loss of $77.1 million (before-tax). The impairment was primarily a result of a decrease in forecast crude oil prices as at March 31, 2020 compared to forecast prices as at December 31, 2019. Despite being a low-cost property, the decrease in forecast crude oil prices had a pervasive impact on the recoverable amount calculated for the Alberta CGU, given WTI forecasted prices for 2020 decreased by 50% from December 31, 2019. As at March 31, 2020, the net carrying amount of PP&E for the Alberta CGU was $576.7 million subsequent to the impairment taken.

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

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

Given the significant cushion between the carrying value and the recoverable amounts in the British Columbia CGU, the sensitivity analysis did not have an impact on the conclusions from the impairment calculation, being that a 1% increase (decrease) in the discount rate or 5% decrease (increase) in the forecast combined average realized price would not trigger an impairment for those CGUs as at March 31, 2020.

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Gain (loss) on sale of assets	**1,703**	1,375	24

During the first quarter of 2020, the Company disposed of certain non-core oil and gas assets with a net book value of $0.4 million. Consideration received was measured at fair value, for a total of $2.1 million, resulting in a gain on sale of $1.7 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)	**2020**	2019	%
Realized gain (loss)	**7,302**	(812)	-999
Unrealized gain (loss)	**21,647**	(2,629)	-923
Gain (loss) on derivative financial instruments	**28,949**	(3,441)	-941
$ per BOE	**10.32**	(1.41)	-832

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 May 7, 2020, the following commodity price risk management contracts outstanding:

Contract Type(1)(2)	Notional Volume	Contract Price	Term
Crude oil derivative contracts			
WTI fixed price swap	4,000 bbl/d	CAD$77.55/bbl	Apr - Jun 2020
WTI to MSW Basis differential	3,000 bbl/d	WTI less CAD$6.40/bbl	Apr - Jun 2020
WTI to MSW Basis differential	1,000 bbl/d	WTI less USD$4.60/bbl	Apr - Jun 2020
MSW fixed price swap	3,000 bbl/d	CAD$31.36/bbl	July - Dec 2020
WTI fixed price swap	3,355 bbl/d	CAD$29.05/bbl	May 2020
MSW fixed price swap	4,000 bbl/d	CAD$27.50/bbl	June 2020
NGL derivative contracts			
OPIS-Conway propane fixed price swap	500 bbl/d	CAD$23.35/bbl	Apr 2020 – Dec 2020
Natural gas derivative contracts			
NYMEX fixed price swap	45,000 MMBtu/d	CAD$2.83/MMBtu	Apr - Nov 2020

(1) West Texas Intermediate (“WTI”)
(2) Mixed Sweet Blend (“MSW”)

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 $305.3 million during the first quarter of 2020, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.8 million.

As at May 7, 2020, the following interest rate risk management contracts are outstanding:

Contract Type	Notional Amount	Fixed Rate	Index (1)	Term
Fixed/Floating Rate Swap	$100 million	0.915%	CDOR	Mar 27, 2020 - Mar 29, 2021

(1) Canadian Dollar Offered Rate (“CDOR”)

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 May 7, 2020, the following foreign exchange risk management contracts are outstanding:

Contract Type	Notional Amount	Ceiling ($CAD/US)	Floor ($CAD/US)	Term
FX collar (1)	US$3 million	$1.42	$1.35	Apr 2020 – Dec 2020

(1) The FX collar contract includes a provision where Kelt’s counterparty has the option to enter into a 1 year Notional Amount term from January 1, 2021 to December 31, 2021 at a fixed exchange rate of 1.42 CAD/USD if the spot exchange rate at December 31, 2020 is greater than or equal to the strike price of $1.42 CAD/USD.

PREMIUM ON FLOW-THROUGH SHARES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Premium on flow-through shares	**1,346**	-	-

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

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

INCOME TAXES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Deferred income tax expense (recovery)	**4,764**	3,587	33
Profit (loss) before taxes	**(69,321)**	12,956	-635
Effective tax recovery rate	**-7%**	28%	-125

Kelt’s consolidated combined federal and provincial statutory tax rate averaged 26.0% and 27.0% during the three months ended March 31, 2020 and 2019, respectively. Kelt’s effective tax rate in the first quarter of 2020 was lower than the statutory rate due to $17.4 million of qualifying expenditures incurred and renounced in respect of the Company’s CDE flow-through share commitments and the Company’s impairment taken as of March 31, 2020. Kelt did not recognized a portion of the deferred tax asset related to the impairment due to uncertainty regarding future taxable income in the Alberta CGU.

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 $1,233 million as of March 31, 2020 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**March 31 2020**	December 31 2019	% change
Canadian oil and gas property expenses (COGPE)	10-15%	**111,270**	115,792	-4
Canadian development expenses (CDE)	30-45%	**266,353**	254,985	4
Canadian exploration expenses (CEE)	100%	**111,041**	109,508	1
Undepreciated capital cost (1) (UCC)	25-37.5%	**285,034**	264,870	8
Share and debt issue costs (SIC/DIC)	5 years	**1,503**	1,805	-17
Non-capital losses (2) (NCL)	100%	**457,886**	437,754	5
Estimated tax deductions available, end of period		**1,233,087**	1,184,714	4

(1) The majority of the Company’s undepreciated capital cost deductions relate to Class 41 assets, which are deductible at a rate of 25-37.5% per year.
(2) The Company’s non-capital losses expire in years 2023 to 2039.

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, 2020 and 2019, respectively.

THREE MONTHS ENDED MARCH 31ST	**2020**		2019		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**70,918**	**25.30**	102,585	42.12	-31	-40
Cost of purchases	**(3,517)**	**(1.25)**	(3,608)	(1.48)	-3	-16
Realized gain (loss) on financial instruments (1)	**7,302**	**2.60**	(812)	(0.33)	-999	-888
Royalties	**(2,870)**	**(1.02)**	(4,907)	(2.01)	-42	-49
Revenue, after royalties and financial instruments	**71,833**	**25.63**	93,258	38.30	-23	-33
Production expense	**(30,404)**	**(10.85)**	(24,698)	(10.14)	23	7
Transportation expense	**(9,804)**	**(3.50)**	(11,619)	(4.77)	-16	-27
Operating income/netback (2)	**31,625**	**11.28**	56,941	23.39	-44	-52
Financing expense (3)	**(4,559)**	**(1.63)**	(3,147)	(1.29)	45	26
G&A expense	**(1,812)**	**(0.65)**	(2,573)	(1.06)	-30	-39
Other income	**556**	**0.20**	495	0.19	12	5
Cash premium on financial instruments	**1,230**	**0.44**	-	-	-	-
Realized gain (loss) on foreign exchange	**320**	**0.11**	(257)	(0.11)	-224	-200
Adjusted funds from operations (2)	**27,360**	**9.75**	51,459	21.12	-47	-54
Basic ($ per common share) (4)	**0.15**		0.28		-46	
Diluted ($ per common share) (4)	**0.15**		0.28		-46	
Common shares outstanding (000s):						
Basic, weighted average	**187,794**		184,017		2	
Diluted, weighted average	**187,940**		184,617		2	

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

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

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

(4) Adjusted funds from operations (2) 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, 2020, adjusted funds from operations of $27.4 million ($0.15 per share, diluted) decreased by 47% from $51.5 million ($0.28 per share, diluted) during the first quarter ended March 31, 2019 and decreased by 41% from $46.7 million ($0.25 per share, diluted) during the fourth quarter ended December 31, 2019. The decrease in adjusted funds from operations is primarily attributed to the decrease in petroleum and natural gas sales, partially offset by an increase on the Company's derivative financial instruments.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2020**	2019	%
Profit (loss) and comprehensive income (loss)	**(74,085)**	9,369	-891
$ per common share, basic	**(0.39)**	0.05	-880
$ per common share, diluted (1)(2)	**(0.39)**	0.05	-880
$ per BOE	**(26.44)**	3.83	-790
Wtd avg. shares outstanding, basic (000s)	**187,794**	184,017	2
Wtd avg. shares outstanding, diluted (000s) (1)(2)	**187,940**	184,617	2

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for the first quarter ended March 31, 2020, the Company excluded the effect of stock options and RSUs as the Company was in a net loss position. In computing the diluted profit per common share for the first quarter ended March 31, 2020 the dilutive impact of the effect of stock options and RSUs was negligible.

(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 loss of $74.1 million ($0.39 per common share, diluted) for the three months ended March 31, 2020, compared to a profit of $9.4 million in the same three month period of 2019. The decrease to profit is primarily due to a decrease of $24.1 million in adjusted funds from operations and an impairment expense of $77.1 million which was offset by an unrealized gain on derivatives of $21.6 million.

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)	**2020**	2019	%
Capital expenditures:			
Lease acquisition and retention	**404**	340	19
Geological and geophysical	**1,533**	137	1019
Drilling and completion of wells	**51,708**	67,411	-23
Facilities, pipeline and well equipment	**39,576**	36,925	7
Corporate assets	**8**	113	-93
Capital expenditures, before A&D	**93,229**	104,926	-11
Property acquisitions	**16**	4,408	-100
Property dispositions	**(2,119)**	(1,372)	54
Total capital expenditures, net of dispositions	**91,126**	107,962	-16

DRILLING

During the quarter, Kelt completed 7.0 net wells, which included the last of its six wells on its 24 well pad at Inga/Fireweed. Kelt also drilled five wells at Fireweed and four wells at Oak/Flatrock, however the completions for these wells have been deferred as a result of low commodity prices.

Due to rapid decrease in benchmark crude oil prices at the end of the first quarter of 2020, Kelt is deferring the drilling of new wells and the completion of previously drilled wells. The Company's drilling program will resume once crude oil prices stabilize.

	Three months ended March 31		
Net wells	**2020**	2019	%
Drilling	**9.0**	10.0	-10
Completion	**7.0**	15.0	-53

CAPITAL RESOURCES AND LIQUIDITY

LIQUIDITY

Kelt's capital management objective is to maintain a flexible capital structure and sufficient liquidity to allow the Company to execute on its capital investment program. The Company manages its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As at March 31, 2020, Kelt's capital structure was comprised of shareholders' capital, convertible debentures, bank debt and working capital.

As a result of the COVID-19 pandemic (as described in note 2 of the interim financial statements), global economic markets and crude oil demand have collapsed, with forecasted crude oil prices decreasing by ~50% as of March 31, 2020 for the remainder of 2020 compared to December 31, 2019. The length and severity of the impacts of COVID-19 on crude oil demand and pricing is currently uncertain. However, management believes that the long-term viability of the oil and gas industry remains intact and commodity prices will begin to improve once COVID related restrictions on the worldwide economy can be relaxed. The information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to be fluid and the potential timing of or improvement in commodity prices is currently unknown.

As of March 31, 2020, Kelt's net bank debt was $344.7 million compared to the Company's bank facility of $350.0 million. As part of the Company's risk management strategy, Kelt has reduced G&A expenses, placed on hold any previous planned drilling and completion operations, and is taking measures to reduce production levels to preserve value. In addition, Kelt has obtained fixed prices for 6,435 bbls/d (~48% of Q1 oil production) for the second quarter at CAD$58.88/bbl, 3,000 bbls/d (~31% of Q1 oil production) for the third and fourth quarter at CAD$31.36/bbl and 45,000 MMBtu/d (~45% of Q1 natural gas production) at CAD$2.83 per MMBtu. Kelt believes that these initiatives will provide the necessary liquidity to meet its capital deficiency position. However, further or prolonged deterioration in commodity prices, credit and equity markets due to COVID-19 may negatively impact the Company's liquidity. As such, the Company continues to pursue additional opportunities to access additional credit, credit support from recently announced programs from the Federal Government of Canada and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

The Company's working capital deficit of $34.7 million combined with outstanding bank debt of $310.0 million as at March 31, 2020, represented 98% of the authorized borrowing amount available under the credit facility of $350.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on May 31, 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.

	March 31, 2020	December 31, 2019
Bank debt	**310,000**	300,000
Working capital deficiency	**34,664**	28,080
Net bank debt (1)	**344,664**	328,080
Net debt (2)	**371,785**	328,080
Annualized quarterly adjusted funds from operations (3)(4)	**110,488**	186,620
Net bank debt to annualized quarterly adjusted funds from operations ratio (1)	**3.1**	1.8
Net debt to annualized quarterly adjusted funds from operations ratio	**3.4**	1.8

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

(2) "Net debt" is equal to "Net bank debt" plus the Company's non-current financing liability.

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

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

The Company monitors its capital structure and short-term financing requirements using a net bank debt to annualized quarterly adjusted funds from operations ratio, which is a non-GAAP financial measure. Kelt targets a net bank debt to annualized quarterly adjusted funds from operations ratio of less than 2.0 times. For the quarter ended March 31, 2020, the Company's capital expenditures net of A&D of $91.1 million were in excess of the Company's adjusted funds from operations of $27.4 million. In addition, Kelt closed $28.7 million financing in March 2020 for a pipeline constructed in the quarter. As a result, Kelt's net bank debt increased to $344.7 million at March 31, 2020 from $328.1 million at December 31, 2019. Kelt's net debt as of March 31, 2020, which includes the non-current portion of the third-party financial liability, was $371.8 million. As at March 31, 2020, the Company's net bank debt to annualized quarterly adjusted funds from operations ratio increased to 3.1 times from 1.8 times as at December 31, 2019 and net debt to annualized quarterly adjusted funds from operations ratio increased to 3.4 times from 1.8 times as at December 31, 2019. Notwithstanding the Company's efforts to manage its capital structure and leverage, its ability to adjust its capital structure to its targeted debt levels is expected to be difficult while the impacts of COVID-19 persist.

CREDIT FACILITY

The Company has a $350 million revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. As at March 31, 2020, $310 million is drawn under the Credit Facility. 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.

Kelt has obtained approval from its lenders to extend the revolving period under its credit facility agreement from April 30, 2020 to May 31, 2020 with respect to determining the borrowing base available under its Credit Facility.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $800.0 million and general assignment of book debts.

CONVERTIBLE DEBENTURES

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at March 31, 2020. 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, 2020 there were 187.8 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 2020, 88.0 million common shares traded on the TSX at a weighted average price of $2.36 per common share, down from the volume weighted average trading price of $4.25 per common share during the year ended December 31, 2019.

As at March 31, 2020, officers, directors, and employees have been granted options to purchase 10.0 million common shares of the Company at an average exercise price of $4.76 per common share. In addition, there are 0.9 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 13 of the interim financial statements.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

(CA$ thousands)	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	12,937	18,116	22,643	21,286	19,135	95,069
Firm transportation commitments (1)	26,676	29,078	27,200	22,321	20,743	161,707
Total annual commitments	**39,613**	**47,194**	**49,843**	**43,607**	**39,878**	**256,776**

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on March 31, 2020 of CA$/US$1.4187.

OFF-BALANCE SHEET TRANSACTIONS

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

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 2020**	Q4 2019	Q3 2019	Q2 2019
Petroleum and natural gas sales	**70,918**	97,763	93,274	100,734
Cash provided by operating activities	**50,172**	35,396	14,640	58,639
Adjusted funds from operations (1)	**27,360**	46,655	39,173	45,234
Per share – basic ($/common share) (1)	**0.15**	0.25	0.21	0.25
Per share – diluted ($/common share) (1)	**0.15**	0.25	0.21	0.25
Profit (loss) and comprehensive income (loss)	**(74,085)**	(2,628)	(2,909)	2,740
Per share – basic ($/common share)	**(0.39)**	(0.01)	(0.02)	0.01
Per share – diluted ($/common share)	**(0.39)**	(0.01)	(0.02)	0.01
Total capital expenditures, net of dispositions	**91,126**	63,983	52,657	91,022
Total assets	**1,608,870**	1,605,465	1,602,566	1,577,824
Net bank debt (1)	**344,664**	328,080	320,507	308,636
Convertible debentures	**83,957**	82,789	81,630	80,512
Shareholders' equity	**850,486**	923,062	908,190	909,373
Average daily production (BOE/d)	**30,806**	31,262	31,150	30,314
Average realized price ($/BOE) (1)(2)	**26.65**	32.53	30.85	35.01
Operating netback ($/BOE) (1)	**11.28**	18.65	15.68	18.50
Operating netback % of average realized price (2)	**42%**	57%	51%	53%

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Petroleum and natural gas sales	102,585	100,350	100,219	98,715
Cash provided (used in) by operating activities	53,813	63,656	29,881	39,183
Adjusted funds from operations (1)	51,459	47,140	46,876	47,099
Per share – basic ($/common share)	0.28	0.26	0.25	0.26
Per share – diluted ($/common share)	0.28	0.26	0.25	0.25
Profit (loss) and comprehensive income	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 bank 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 as a % of average realized price (2)	58%	56%	55%	56%

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

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

In 2018, positive momentum existed for global crude oil prices due to a balancing of global oil demand and supply resulting in a gradual increase in benchmark oil prices. 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.

Oil prices recovered at the beginning of 2019, and taken together with higher average production, drove the increase in revenues, cash provided by operating activities, and operating netbacks during the first quarter of 2019. In the last nine months of 2019, on-going trade tensions, primarily between the US and China, resulted in a global consumer demand slowdown triggering a reduction of future forecasted oil demand, and a lowering of global benchmark oil prices. At the very end of 2019, global benchmark oil prices increased due positive trade discussions between the US and China, and overall positive economic data from the US.

On January 30, 2020 the World Health Organization ("WHO") declared a Public Health Emergency of International Concern for a new novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic and governments around the world have imposed significant public health measures. Current forecasts estimate an unprecedented global crude oil demand reduction for 2020 that has resulted in a significant decrease in current and future crude oil prices. Crude oil prices continued to decline into the second quarter of 2020, with the information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continuing to evolve.

Benchmark natural gas prices in the US fell in the last nine months of 2019 and into the first quarter of 2020 as strong supply growth in the US resulted in a greater than average inventory build. However AECO and Station 2 prices improved in the fourth quarter of 2019, with Station 2 prices continuing to improve into the first quarter of 2020 as changes to the priority service for the Nova Gas Transmission Ltd. natural gas pipeline once again allowed deliveries of natural gas into storage during seasonal gas demand lows and during pipeline maintenance. This additional storage capacity has resulted in a re-balancing of the Canadian natural gas market, and has significantly narrowed the Canadian/US natural gas differentials.

By the end of the first quarter of 2020, North American natural gas supply began to turn downwards, both due to a reduction of drilling activity in the North American basins, and as shut-in of associated oil and gas wells occurred, all as a result of the demand destruction caused by the COVID-19 pandemic. Forward strip prices at the end of March 2020 forecast a relatively balanced natural gas market heading into the fall of 2020, with the reduction in supply offsetting a reduction in commercial demand as economic activity from the COVID-19 pandemic is significantly reduced.

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.

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, 2019 consolidated annual financial statements.

These estimates require assumptions for future commodity prices, exchange rates, interest rates, future oil and natural gas production, and other economic issues that have a high degree of uncertainty. As the understanding of the longer-term impacts of COVID-19 on commodity, credit and equity markets develops throughout 2020, so will the assumptions for the valuation of Kelt's exploration and evaluation assets, the valuation of its cash generating units, the timing around its decommissioning obligations, the fair value of its investments in securities, the Company's calculated expected credit loss provision and the general collectability of its accounts receivables, and its liquidity and going concern assessment.

Lower commodity prices resulted in a significant decrease in the Company's Petroleum and Natural Gas Sales in the first quarter of 2020 and reduced the outlook for the remainder of 2020 based on current strip prices for crude oil. The Company's net bank debt as of March 31, 2020 at $344.7 million resulting in an increase in the annualized quarterly adjusted funds from operations ratio of 3.1 times increased from 1.8 times at December 31, 2019.

In response to the lower commodity prices and uncertainty about short term oil demand, Kelt has placed on hold any previous planned drilling and completion operations, reduced general and administrative expenses and is taking measures to reduce production levels to preserve the value of its oil and gas reserves. Notwithstanding these measures taken, the decline in commodity prices may have a negative impact on the Company's debt levels, its net bank debt to annualized quarterly adjusted funds from operations ratios and ability to maintain or increase current debt levels. The Company has extended the maturity date of its credit facility to May 2020 and the results of the review are not know at this time. The Company continues to pursue additional opportunities to access credit support and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

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, 2020 to March 31, 2020 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 sales, net of the cost of purchases and after realized gains or losses on associated financial instruments. The Company refers to operating income expressed per unit of production as an "operating netback".

"Adjusted funds from operations" is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs associated with acquisitions and dispositions, provisions for potential credit losses, and settlement of decommissioning obligations. Adjusted funds from operations per common share is calculated on a consistent basis with profit (loss) per common share, using basic and diluted weighted average common shares as determined in accordance with GAAP.

Adjusted funds from operations, annualized quarterly adjusted funds from operations and operating income or netbacks are non-GAAP measures used by management to measure operating performance. Adjusted funds from operations, annualized quarterly adjusted funds from operations, and operating income or netbacks are non-GAAP measures used by management as a key measure to assess the ability of the Company to fund operating activities, capital expenditures and the repayment of debt however; it is not intended to be viewed as an alternative to cash provided by operating activities, profit or other measures of financial performance calculated in accordance with GAAP. The following table reconciles cash provided by operating activities reported in accordance with GAAP to *Adjusted funds from operations*:

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%
Cash provided by operating activities	**50,172**	53,813	-7
Change in non-cash working capital	**(22,916)**	(3,450)	564
Funds from operations	**27,256**	50,363	-46
Settlement of decommissioning obligations	**104**	1,096	-91
Adjusted funds from operations	**27,360**	51,459	-47

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

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

“Net bank debt” is equal to “bank debt, net of working capital”. “Net bank 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. “Net debt” is equal to “net bank debt” plus the Company’s non-current financing liability. The Company uses a “net bank debt to annualized quarterly adjusted funds from operations ratio” and a “net debt to annualized quarterly 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, as well as the Company’s “net bank debt” and “net debt” which are all non-GAAP financial measures, provides investors with information to understand the Company’s liquidity risk. The “net bank debt to annualized quarterly adjusted funds from operations ratio” and “a “net debt to annualized quarterly adjusted funds from operations ratio” is also indicative of the “debt to EBITDA” 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, 2019, dated March 9, 2020. Additional information is included in Kelt’s Annual Information Form dated March 6, 2020 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 2020. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

Certain information with respect to Kelt contained herein, including management’s assessment of future plans and operations, contains forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, many of which are beyond Kelt’s control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, imprecision of reserve estimates, environmental risks, competition from other explorers, stock market volatility and ability to access sufficient capital. As a result, Kelt’s actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur.

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

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words “expect”, “anticipate”, “continue”, “estimate”, “objective”, “ongoing”, “may”, “will”, “project”, “should”, “believe”, “plans”, “intends”, “potentially” and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the following: Kelt’s expected price realizations and future commodity prices; the cost and timing of future capital expenditures and expected results; the Company’s ability to continue accumulating land at a low-cost in its core operating areas and potentially monetize non-core assets; the expected timing of well completions, the expected timing of wells 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, with the key factors below:

- The COVID-19 pandemic has resulted in an unprecedented collapse of the global crude oil demand market, resulting in crude oil prices dramatically falling at the end of the first quarter of 2020. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic remains uncertain;
- A fractured OPEC+ meeting at the beginning of March 2020 resulted in the short-term withdrawal of production cuts following Russia's refusal to back a collective 1.5 million barrel per day production cut. The collapse of the production cuts, at the same time crude oil demand was collapsing due to the COVID-19 pandemic, resulted in a historic oversupply of worldwide crude oil supplies. OPEC reconvened in April 2020 with a record oil deal cutting over 10 million barrels per day of production; however It is unknown if these OPEC cuts will be sufficient to offset the decrease in demand due to COVID-19 which is estimated at ~30 million barrels per day;
- Heightened geopolitical risk in the Middle East continues in 2020 with on-going tensions between Iran and the US;
- Political instability in Venezuela continues into 2020;
- Changes to the priority service for the Nova Gas Transmission Ltd. natural gas pipeline at the end of the third quarter of 2019 has allowed deliveries of natural gas into storage during seasonal gas demand lows and during pipeline maintenance. This additional storage capacity has resulted in a re-balancing of the Canadian natural gas market, and has narrowed the Canadian/US natural gas differential; and
- Potential climate change regulations could have a significant impact on Canadian natural resource industries.

In response to the lower commodity prices and uncertainty about short term oil demand, Kelt has placed on hold any previous planned drilling and completion operations, reduced general and administrative expenses and is taking measures to reduce production levels to preserve the value of its oil and gas reserves.

OUTLOOK AND GUIDANCE

As a result of the significant ongoing uncertainty in market conditions, Kelt has withdrawn its 2020 corporate guidance that was previously provided in the Company's news release on March 17, 2020 and in its management's discussion and analysis for the year ended December 31, 2019 dated March 9, 2020. In this regard, the Company currently has no immediate plans to start up drilling and completion operations on wells that currently remain in the capital expenditure budget until there is better clarity on future commodity prices which have been negatively impacted by global oil demand destruction as a result of the COVID-19 pandemic.

Kelt will continue to reassess its ability to reasonably estimate and provide annual guidance and plans to continue to provide corporate updates during this period of heightened volatility and uncertainty.

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 6, 2020 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.

Notice of No Auditor Review of Interim Financial Statements

The Company discloses that its auditors have not reviewed these unaudited consolidated interim financial statements as at for the three months ended March 31, 2020.

The management of Kelt Exploration Ltd. was responsible for the preparation of these interim financial statements, which were prepared in accordance with International Financial Reporting Standards.

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

(CA$ thousands)	[Notes]	**March 31, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**25,364**	8,365
Accounts receivable and accrued revenue	[14]	**33,109**	44,972
Prepaid expenses and deposits		**1,864**	2,226
Derivative financial instruments	[14]	**20,004**	-
Total current assets		**80,341**	55,563
Investment in securities	[14]	**5,600**	5,600
Exploration and evaluation assets	[6]	**73,267**	73,891
Property, plant and equipment	[7]	**1,449,662**	1,470,411
Total assets		**1,608,870**	1,605,465
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**106,730**	76,072
Derivative financial instruments	[14]	**1,892**	2,305
Deferred premium on flow-through shares		**-**	1,346
Decommissioning obligations	[10]	**2,906**	2,094
Financing liability	[11]	**2,356**	771
Lease liability	[12]	**1,121**	1,055
Total current liabilities		**115,005**	83,643
Bank debt	[8]	**310,000**	300,000
Convertible debentures	[9]	**83,957**	82,789
Decommissioning obligations	[10]	**159,147**	157,929
Deferred income tax liability		**61,193**	56,429
Financing liability	[11]	**27,121**	-
Lease liability	[12]	**1,961**	1,613
Total liabilities		**758,384**	682,403
SHAREHOLDERS' EQUITY			
Shareholders' capital	[13]	**1,137,211**	1,137,121
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[9]	**12,843**	12,843
Contributed surplus		**26,158**	24,739
Retained earnings (deficit)		**(268,058)**	(193,973)
Total shareholders' equity		**850,486**	923,062
Total liabilities and shareholders' equity		**1,608,870**	1,605,465
Commitments	[16]		

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

On behalf of the Board of Directors:

[signed] *[signed]*

David J. Wilson, Director 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]	**2020**	2019
Revenue			
Petroleum and natural gas sales	[15]	**70,918**	102,585
Royalties		**(2,870)**	(4,907)
		68,048	97,678
Expenses			
Production		**30,404**	24,698
Transportation		**9,804**	11,619
Cost of purchases		**3,517**	3,608
Financing		**6,420**	4,967
General and administrative		**1,812**	2,573
Share based compensation	[13]	**1,509**	1,878
Exploration and evaluation	[6]	**320**	273
Depletion, depreciation and impairment	[7]	**116,056**	33,916
		169,842	83,532
Gain (loss) on derivative financial instruments	[14]	**28,949**	(3,441)
Foreign exchange gain (loss)		**320**	(219)
Unrealized gain on investment		**-**	600
Premium on flow-through shares		**1,346**	-
Gain on sale of assets	[5]	**1,703**	1,375
Other expenses		**(401)**	-
Other income		**556**	495
Profit (loss) before taxes		**(69,321)**	12,956
Deferred income tax recovery (expense)		**(4,764)**	(3,587)
Profit (loss) and comprehensive income (loss)		**(74,085)**	9,369
Profit (Loss) per common share			
Basic		**(0.39)**	0.05
Diluted		**(0.39)**	0.05

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

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

(CA$ thousands)	[Notes]	Shareholders' capital Number of Shares (000s)	Shareholders' capital Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2019		187,786	1,137,121	(57,668)	12,843	24,739	(193,973)	923,062
Loss and comprehensive loss		-	-	-	-	-	(74,085)	(74,085)
Vesting of restricted share units	[13]	13	90	-	-	(90)	-	-
Share based compensation	[13]	-	-	-	-	1,509	-	1,509
Balance at March 31, 2020		**187,799**	**1,137,211**	**(57,668)**	**12,843**	**26,158**	**(268,058)**	**850,486**
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		-	-	-	-	-	(221)	(221)
Profit and comprehensive income		-	-	-	-	-	9,369	9,369
Exercise of stock options	[13]	4	18	-	-	(5)	-	13
Vesting of restricted share units	[13]	38	154	-	-	(154)	-	-
Share based compensation	[13]	-	-	-	-	1,878	-	1,878
Balance at March 31, 2019		184,045	1,119,404	(57,668)	12,843	21,432	(191,176)	904,835

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

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

		Three months ended March 31	
(CA$ thousands)	[Notes]	**2020**	2019
Operating activities			
Profit (loss) and comprehensive income (loss)		**(74,085)**	9,369
Items not affecting cash:			
Accretion		**1,861**	1,820
Share based compensation		**1,509**	1,878
Exploration and evaluation		**320**	273
Depletion, depreciation and impairment		**116,056**	33,916
Unrealized (gain) loss on derivative financial instruments	[14]	**(21,647)**	2,629
Unrealized gain on investment in securities		**-**	(600)
Unrealized gain on foreign exchange		**-**	(38)
Other expenses		**401**	-
Premium on flow-through shares		**(1,346)**	-
Gain on sale of assets	[5]	**(1,703)**	(1,375)
Deferred income tax (recovery) expense		**4,764**	3,587
Cash premiums on derivatives		**1,230**	-
Settlement of decommissioning obligations	[10]	**(104)**	(1,096)
Change in non-cash operating working capital	[17]	**22,916**	3,450
Cash provided by operating activities		**50,172**	53,813
Financing activities			
Increase in bank debt		**10,000**	24,441
Increase in financing liability		**28,706**	-
Proceeds on exercise of stock options	[13]	**-**	13
Repayment of lease liability principle	[12]	**(319)**	(320)
Cash provided by provided by financing activities		**38,387**	24,134
Investing activities			
Exploration and evaluation assets	[6]	**(1,937)**	(468)
Property, plant and equipment	[7]	**(91,292)**	(104,458)
Property acquisitions	[5]	**(15)**	(3,002)
Property dispositions	[5]	**2,118**	(34)
Change in non-cash investing working capital	[17]	**19,566**	26,694
Cash (used in) investing activities		**(71,560)**	(81,268)
Impact of foreign currency on cash balances		**-**	38
Net change in cash and cash equivalents		**16,999**	(3,283)
Cash and cash equivalents, beginning of period		**8,365**	6,455
Cash and cash equivalents, end of period		**25,364**	3,172

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

KELT EXPLORATION LTD.
NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2020
[UNAUDITED]

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in northwestern Alberta and northeastern British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd. ("Kelt LNG"), a wholly owned subsidiary of Kelt. The Company's common shares 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. COVID-19 and Significant Judgements and Estimates

On January 30, 2020 the World Health Organization ("WHO") declared a Public Health Emergency of International Concern for a new novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic and governments around the world have imposed significant public health measures in order to reduce its spread. Current forecasts estimate an unprecedented global crude oil demand reduction for 2020 that has resulted in a significant decrease in current and future crude oil prices. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve.

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, 2019 consolidated annual financial statements.

These estimates require assumptions for future commodity prices, exchange rates, interest rates, future oil and natural gas production, and other economic issues that have a high degree of uncertainty. As the understanding of the longer-term impacts of COVID-19 on commodity, credit and equity markets develops throughout 2020, so will the assumptions for the valuation of Kelt's exploration and evaluation assets, the valuation of its cash generating units, the timing around its decommissioning obligations, the fair value of its investments in securities, the Company's calculated expected credit loss provision and the general collectability of its accounts receivables, and its liquidity and going concern assessment.

Lower commodity prices resulted in a significant decrease in the Company's Petroleum and Natural Gas Sales in the first quarter of 2020 and reduced the outlook for the remainder of 2020 based on current strip prices for crude oil. The Company's net bank debt as of March 31, 2020 was $344.7 million. The bank debt, combined with a decrease in the annualized quarterly adjusted funds from operations, resulted in an increase to the net bank debt to annualized quarterly adjusted funds from operation ratio to 3.1 times as at March 31, 2020 from 1.8 times at December 31, 2019.

In response to the lower commodity prices and uncertainty about short term oil demand, Kelt has placed on hold any previous planned drilling and completion operations, reduced general and administrative expenses and is taking measures to reduce production levels to preserve the value of its oil and gas reserves. Notwithstanding these measures taken, the decline in commodity prices may have a negative impact on the Company's debt levels, its net bank debt to annualized quarterly adjusted funds from operations ratios and ability to maintain or increase current debt levels. The Company has extended the maturity date of its credit facility to May 2020 and the results of the review are not know at this time. The Company continues to pursue additional opportunities to access credit support and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on May 6, 2020 for issue on May 7, 2020.

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, 2019.

b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 14 of these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2019 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements as at March 31, 2020 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, 2019.

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

5. 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, 2020 and the year ended December 31, 2019.

Acquisitions	**March 31, 2020**	December 31, 2019
Exploration and evaluation assets	**1**	6,969
Property, plant and equipment	**965**	828
Decommissioning obligations	**(950)**	(614)
Total assets (liabilities) acquired	**16**	7,183
Consideration		
Cash consideration	**15**	(4,002)
Non-cash consideration	**1**	(3,181)
Total consideration	**16**	(7,183)

Dispositions	**March 31, 2020**	December 31, 2019
Exploration and evaluation assets	**(475)**	(2,900)
Property, plant and equipment	**-**	28
Decommissioning obligations	**59**	889
Carrying value of net (assets) liabilities disposed	**(416)**	(1,983)
Consideration		
Cash consideration, after closing adjustments	**2,118**	5,704
Non-cash consideration	**1**	3,181
Total consideration	**2,119**	8,885
Gain on sale of assets	**1,703**	6,902

6. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

	March 31, 2020	December 31, 2019
Balance, beginning of period	**73,891**	119,282
Additions	**1,937**	9,001
Property acquisitions [note 5]	**1**	6,969
Property dispositions [note 5]	**(475)**	(2,900)
Transfers to property, plant and equipment	**(1,767)**	(53,406)
Expired mineral leases	**(320)**	(5,055)
Balance, end of period	**73,267**	73,891

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**March 31, 2020**	December 31, 2019
Development and production ("D&P") assets	**1,446,604**	1,467,577
Right-of-use ("ROU") assets	**2,736**	2,338
Corporate assets	**322**	496
Total net carrying value of property, plant and equipment	**1,449,662**	1,470,411

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, 2018	1,878,643	4,029	-	1,882,672
Initial adoption of IFRS 16	-	-	2,666	2,666
Additions	307,554	771	953	309,278
Property acquisitions [note 5]	828	-	-	828
Property dispositions [note 5]	28	-	(118)	(90)
Decommissioning costs	14,971	-	-	14,971
Transfers from E&E	53,406	-	-	53,406
Balance at December 31, 2019	**2,255,430**	**4,800**	**3,501**	**2,263,731**
Additions	**91,284**	**8**	**733**	**92,025**
Property acquisitions [note 5]	**965**	-	**-**	**965**
Decommissioning costs	**550**	**-**	**-**	**550**
Transfers from E&E	**1,767**	**-**	**-**	**1,767**
Balance at March 31, 2020	**2,349,996**	**4,808**	**4,234**	**2,359,038**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2018	633,465	3,518	-	636,983
Depletion and depreciation expense	154,388	786	1,222	156,396
Dispositions	-	-	(59)	(59)
Balance at December 31, 2019	**787,853**	**4,304**	**1,163**	**793,320**
Depletion and depreciation expense	**38,439**	**182**	**335**	**38,956**
Impairment	**77,100**	**-**	**-**	**77,100**
Balance at March 31, 2020	**903,392**	**4,486**	**1,498**	**909,376**

Future capital costs required to develop proved reserves in the amount of $1,346.0 million (December 31, 2019 – $1,378.9 million) are included in the depletion calculation for development and production assets.

As at March 31, 2020, as a result of the COVID-19 pandemic and a resulting collapse in global crude oil demand, commodity price forecasts significantly decreased since December 31, 2019. As such, an impairment test was conducted over all Kelt's CGUs; however no impairment was recognized for the Company's CGU in British Columbia as the estimated recoverable amount exceeded its carrying value.

Based on the impairment test performed on the Alberta CGU, it was determined that the carrying value was in excess of the recoverable amount resulting in an impairment loss of $77.1 million (before-tax). The impairment was primarily a result of a decrease in forecast crude oil prices as at March 31, 2020 compared to forecast prices as at December 31, 2019. Despite being a low-cost property, the decrease in forecast crude oil prices had a pervasive impact on the recoverable amount calculated for the Alberta CGU, given WTI forecasted prices for 2020 decreased by approximately 50% from December 31, 2019. As at March 31, 2020, the net carrying amount of PP&E for the Alberta CGU was $576.7 million subsequent to the impairment taken.

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

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

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

Given the significant cushion between the carrying value and the recoverable amounts in the British Columbia CGU, the sensitivity analysis did not have an impact on the conclusions from the impairment calculation, being that a 1% increase (decrease) in the discount rate or 5% decrease (increase) in the forecast combined average realized price would not trigger an impairment for those CGUs as at March 31, 2020.

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

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

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

8. BANK DEBT

The Company has a $350 million revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. As at March 31, 2020, $310 million is drawn under the Credit Facility. 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.

Kelt has obtained approval from its lenders to extend the revolving period under its credit facility agreement from April 30, 2020 to May 31, 2020 with respect to determining the borrowing base available under its Credit Facility.

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. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $800.0 million and general assignment of book debts.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 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.

9. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2018	89,910	78,390	12,843
Accretion of discount	-	4,399	-
Balance at December 31, 2019	**89,910**	**82,789**	**12,843**
Accretion of discount	**-**	**1,168**	**-**
Balance at March 31, 2020	**89,910**	**83,957**	**12,843**

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at March 31, 2020. 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 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 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). At March 31, 2020, the fair value of the Debentures was $76.4 million (note 14).

10. DECOMMISSIONING OBLIGATIONS

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

	March 31, 2020	December 31, 2019
Balance, beginning of period	**160,023**	144,667
Obligations incurred	**773**	4,995
Obligations acquired [note 5]	**950**	614
Obligations disposed [note 5]	**(59)**	(889)
Obligations settled	**(104)**	(2,334)
Changes in discount rate	**25,182**	21,373
Changes in inflation rate	**(25,355)**	(12,868)
Revisions to estimates	**(50)**	1,471
Accretion expense	**693**	2,994
Balance, end of period	**162,053**	160,023
Decommissioning obligations – current	**2,906**	2,094
Decommissioning obligations – non-current	**159,147**	157,929
Key assumptions		
Risk free rate	**1.3%**	1.8%
Inflation rate	**1.3%**	1.8%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2020 the undiscounted amount of the estimated cash flows required to settle the obligation is $162.1 million (December 31, 2019 – $160.0 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.3%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $245.5 million at March 31, 2020 (December 31, 2019 – $291.2 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

11. FINANCING LIABILITY

	March 31, 2020	**December 31, 2019**
Balance, beginning of period	**771**	-
Additions	**28,726**	810
Interest expense	**(54)**	(143)
Principle re-payments	**34**	104
Balance, end of period	**29,477**	771
Financing liability – current	**2,356**	**771**
Financing liability – non-current	**27,121**	-

On March 31st, 2020, Kelt received financing of $28.7 million from a third party for a natural gas pipeline. The financing liability is re-paid over a ten-year term.

12. LEASE LIABILITY

	March 31, 2020	December 31, 2019
Balance, beginning of period	**2,668**	2,888
Additions	**733**	953
Disposals	**-**	(59)
Interest expense	**56**	165
Lease payments	**(375)**	(1,279)
Balance, end of period	**3,082**	2,668
Lease liability – current	**1,121**	1,055
Lease liability – non-current	**1,961**	1,613

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 new leases entered in the quarter ended March 31, 2020 was 4.8%. Payments under the Company's short term leases were $2.1 million for first quarter of 2020, which primarily related to short term drilling rig leases.

13. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of March 31, 2020 (December 31, 2019 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2018	184,003	1,119,232
Issued for cash through common share offerings	3,450	17,423
Deferred premium on flow-through shares	-	(1,346)
Issued for cash on exercise of stock options	4	13
Transfer from contributed surplus on exercise of stock options	-	5
Released upon vesting of restricted share units	329	1,828
Share issue costs, net of deferred taxes ($12)	-	(34)
Balance at December 31, 2019	**187,786**	**1,137,121**
Released upon vesting of restricted share units	**13**	**90**
Balance at March 31, 2020	**187,799**	**1,137,211**

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 March 31, 2020, all eligible expenditures for the Company's flow through shares from 2019 have been incurred.

Stock options

Kelt has an Incentive Stock Option Plan (the "Option Plan") that provides for granting of stock options to directors, officers, employees and certain consultants. The stock options granted pursuant to the Option Plan are to be settled through the issuance of new common shares of the Company which typically vest in equal tranches over a three year period and have a maximum term of five years to expiry.

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2018	9,803	6.20
Granted	2,305	2.92
Exercised [(1)]	(4)	3.25
Forfeited	(227)	5.66
Expired	(1,862)	9.96
Balance at December 31, 2019	**10,015**	**4.76**
Granted	**25**	**4.83**
Forfeited	**(9)**	**3.42**
Expired	**(10)**	**6.80**
Balance at March 31, 2020	**10,021**	**4.76**

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

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

	Three months ended March 31	
	2020	2019
Risk free interest rate	**1.6%**	1.9%
Expected life (years)	**3.0**	4.2
Expected volatility [(1)]	**47.5%**	46.0%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.5%**	4.8%
Fair value of options granted during the year ($/share)	**1.60**	1.96

(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, 2020:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	2,061	4.4	2.77	-	-
$3.51 to $6.50	7,198	2.2	5.02	4,997	5.00
$6.51 to $9.50	762	2.4	7.68	445	7.62
Total	**10,021**	**2.7**	**4.76**	**5,442**	**5.21**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2018	1,097
Granted	144
Released upon vesting	(329)
Forfeited	(47)
Balance at December 31, 2019	**865**
Granted	**10**
Released upon vesting	**(13)**
Forfeited	**(3)**
Balance at March 31, 2020	**859**

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	
	2020	2019
Stock options	**842**	1,116
Restricted share units	**667**	762
Total share based compensation expense	**1,509**	1,878

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)	**2020**	2019
Weighted average common shares outstanding, basic	**187,794**	184,017
Effect of stock options and RSUs	**146**	600
Weighted average common shares outstanding, diluted	**187,940**	184,617

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 or loss per common share. For the quarter ended March 31, 2020, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible. The common shares issuable on conversion of the Debentures were determined to be anti-dilutive for the quarter ended March 31, 2020.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

As at March 31, 2020, the following commodity price risk management contracts are outstanding:

Contract Type(1)(2)	Notional Volume	Contract Price	Term
Crude oil derivative contracts			
WTI fixed price swap	4,000 bbl/d	CAD$77.55/bbl	Apr - Jun 2020
WTI to MSW Basis differential	3,000 bbl/d	WTI less CAD$6.40/bbl	Apr - Jun 2020
WTI to MSW Basis differential	1,000 bbl/d	WTI less USD$4.60/bbl	Apr - Jun 2020
NGL derivative contracts			
OPIS-Conway propane fixed price swap	500 bbl/d	CAD$23.35/bbl	Apr - Dec 2020
Natural gas derivative contracts			
NYMEX fixed price swap	45,000 MMBtu/d	CAD$2.83/MMBtu	Apr - Nov 2020

(1) West Texas Intermediate ("WTI")
(2) Mixed Sweet Blend ("MSW")

Subsequent to March 31, 2020, Kelt entered into the following commodity price risk management contracts:

Contract Type(1)	Notional Volume	Fixed Contract Price	Term
Crude oil derivative contracts			
MSW fixed price swap	3,000 bbl/d	CAD$31.36/bbl	July - Dec 2020
WTI fixed price swap	3,355 bbl/d	CAD$29.05/bbl	May 2020
MSW fixed price swap	4,000 bbl/d	CAD$27.50/bbl	June 2020

(1) West Texas Intermediate ("WTI")
(2) Mixed Sweet Blend ("MSW")

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 $305.3 million during the first quarter of 2020, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.8 million.

As at March 31, 2020, the following interest rate risk management contracts are outstanding:

Contract Type	Notional Amount	Fixed Rate	Index (1)	Term
Fixed/Floating Rate Swap	$100 million	0.915%	CDOR	Mar 27, 2020 - Mar 29, 2021

(1) Canadian Dollar Offered Rate ("CDOR")

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, 2020, the following foreign exchange risk management contracts are outstanding:

Contract Type	Notional Amount	Ceiling ($CAD/US)	Floor ($CAD/US)	Term
FX collar (1)	US$3 million	$1.42	$1.35	Apr - Dec 2020

(1) The FX collar contract includes a provision where Kelt's counterparty has the option to enter into a 1 year Notional Amount term from January 1, 2021 to December 31, 2021 at a fixed exchange rate of 1.42 CAD/USD if the spot exchange rate at December 31, 2020 is greater than or equal to the strike price of $1.42 CAD/USD.

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	
	2020	2019
Realized gain (loss)	**7,302**	(812)
Unrealized gain (loss)	**21,647**	(2,629)
Gain (loss) on derivative financial instruments	**28,949**	(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 sales, deposits, accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. Bank debt bears interest at a floating market rate and accordingly the fair market value of bank debt approximates the carrying amount. The fair value of the convertible debentures is estimated using quoted market prices on the TSX as of the Consolidated Statement of Financial Position date.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at March 31, 2020:

	Carrying Value ("CV")			Fair Value		
	Gross	Netting[1]	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	20,004	-	20,004	-	20,004	-
Investment in securities	5,600	-	5,600	-	-	5,600
Financial liabilities						
Derivative financial instrument	1,892	-	1,892	-	1,892	-
Convertible debentures [note 9]	83,957	-	83,957	76,424	-	-

(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.

The fair value of the convertible debentures of $76.4 million as at March 31, 2020, is based on the closing market price of $85.00 per Debenture, being the price at which the Debentures last traded in the quarter and represents the market value of the entire instrument. As at December 31, 2019, the fair value was $102.5 million based on the closing market price of $114.00 per Debenture.

Credit Risk

As at March 31, 2020, 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, 2020**	December 31, 2019
Joint venture partners	**3,713**	2,320
Oil and gas marketers	**18,673**	37,548
GST input tax credits	**3,356**	4,802
Risk management contracts	**6,165**	189
Other	**1,202**	113
Accounts receivable and accrued revenue	**33,109**	44,972

During the quarter ended March 31, 2020, sales to three oil and gas marketers each individually represented more than 10% of total revenue. Sales to these marketers account for approximately 26%, 34%, and 15%, of total revenue, respectively. During the comparative period ended December 31, 2019, sales to three oil and gas marketers accounted for approximately 20%, 19%, and 38% 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 30-90 days.

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. As of March 31, 2020, the collection risk on outstanding accounts receivable balances is considered low as only 7.0% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2019 – 5.1%).

Liquidity Risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities include accounts payable, derivative financial instruments, financing liability, bank debt and convertible debentures. The Company manages liquidity risk through the 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 annualized quarterly 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, the Company targets to maintain sufficient unused bank credit lines over the long term to satisfy such working capital deficiencies.

As a result of the COVID-19 pandemic (as described in note 2), global economic markets and crude oil demand have collapsed, with forecasted crude oil prices decreasing by ~50% as of March 31, 2020 for the remainder of 2020 compared to December 31, 2019. The length and severity of the impacts of COVID-19 on crude oil demand and pricing is currently uncertain. However, management believes that the long-term viability of the oil industry remains intact and commodity prices will begin to improve once COVID related restrictions on the worldwide economy can be relaxed. The information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to be fluid and the potential timing of or improvement in commodity prices is currently unknown. Assumptions surrounding future commodity prices, exchange rates, interest rates, and forecasts for any potential future forced production shut-ins due to storage and demand issues have a high degree of uncertainty.

As of March 31, 2020, Kelt's net bank debt was $344.7 million compared to the Company's bank facility of $350.0 million. As part of the Company's risk management strategy, Kelt has obtained fixed prices for 6,435 bbls/d (~48% of Q1 oil production) for the second quarter at CAD$58.88/bbl, 3,000 bbls/d (~31% of Q1 oil production) for the third and fourth quarter at CAD$31.36/bbl and 45,000 MMBtu/d (~45% of Q1 natural gas production) at CAD$2.83 per MMBtu. Kelt believes that these derivative contracts, combined with its initiatives to reduce its capital and operating expenses, will provide the necessary liquidity to meet its capital deficiency position. However, further or prolonged deterioration in commodity prices, credit and equity markets due to COVID-19 may negatively impact the Company's liquidity. As such, the Company continues to pursue additional opportunities to access additional credit, credit support from recently announced programs from the Federal Government of Canada and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

The Company's working capital deficit of $34.7 million combined with outstanding bank debt of $310.0 million as at March 31, 2020, represented 98% of the authorized borrowing amount available under the credit facility of $350.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on May 31, 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, 2020:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	106,730	-	-	**106,730**
Derivative financial instruments	1,892	-	-	**1,892**
Bank debt and estimated interest (1)	13,020	310,000	-	**323,020**
Convertible debentures (2)	4,508	91,770	-	**96,278**
Lease liability	1,121	1,873	88	**3,082**
Financing liability	2,356	11,899	15,222	**29,477**
Total	**129,877**	**415,542**	**15,310**	**560,479**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 4.2% for the quarter ended March 31, 2020, 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 1, 2021.

(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 9.

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 annualized quarterly adjusted funds from operations ratio, which is a non-GAAP financial measure.

	March 31, 2020	December 31, 2019
Bank debt	**310,000**	300,000
Working capital deficiency	**34,664**	28,080
Net bank debt (1)	**344,664**	328,080
Net debt (2)	**371,785**	328,080
Annualized quarterly adjusted funds from operations (3)(4)	**110,488**	186,620
Net bank debt to annualized quarterly adjusted funds from operations ratio (1)	**3.1**	1.8

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

(2) "Net debt" is equal to "Net bank debt" plus the Company's non-current financing liability.

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

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

Kelt targets a net bank debt to annualized quarterly adjusted funds from operations ratio of less than 2.0 times. The Company adjust its capital structure 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 decrease in commodity prices in March due to the COVID-19 pandemic, resulted in a significant decrease in the Company's first quarter of 2020 adjusted funds from operations. Net bank debt as of March 31, 2020 was $344.7 million versus Kelt's bank facility of $350.0 million. As such, as of March 31, 2020 the Company's net bank debt to annualized quarterly adjusted funds was 3.1 times, which increased from 1.8 times at December 31, 2019, and is above the Company's stated target of 2.0 times.

As a result of the precipitous decline in crude oil prices, Kelt has placed on hold any previous planned drilling and completion operations, it is taking measures to reduce production levels to preserve value, and it has entered into additional hedge contracts for 3,000 barrels per day from July 1, 2020 to December 31, 2020. Notwithstanding these measures taken, the decline in commodity prices may have a negative impact on the Company's ability to adjust its capital structure to its targeted net bank debt to annualized quarterly adjusted funds from operations ratios of 2.0 times. As such, the Company continues to pursue additional opportunities to access credit support and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at March 31, 2020, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

15. 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 ended March 31, 2020, transportation costs incurred in relation to these contracts was $4.9 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 sales source:

	Three months ended March 31	
	2020	**2019**
Oil production	**39,924**	45,909
Oil treating and other	**174**	190
NGLs production	**5,991**	8,854
Gas production	**21,304**	39,188
Gas processing and other	**312**	281
Marketing revenue	**3,213**	8,163
Total petroleum and natural gas sales	**70,918**	102,585

Included in accounts receivable at March 31, 2020 is $18.7 million (December 31, 2019 - $37.5 million) of accrued oil and gas sales related to March 2020 production.

16. COMMITMENTS

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

	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	12,937	18,116	22,643	21,286	19,135	95,069
Firm transportation commitments (1)	26,676	29,078	27,200	22,321	20,743	161,707
Total annual commitments	**39,613**	**47,194**	**49,843**	**43,607**	**39,878**	**256,776**

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on March 31, 2020 of CA$/US$1.4187.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2020**	2019
Accounts receivable and accrued revenue	**11,863**	(2,395)
Prepaid expenses and deposits	**362**	402
Accounts payable and accrued liabilities	**30,658**	32,137
Change in non-cash working capital	**42,883**	30,144
Relating to:		
Operating activities	**22,916**	3,450
Investing activities	**19,566**	26,694
Items not impacting cash	**401**	-
Change in non-cash working capital	**42,883**	30,144

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	**2020**	2019
Interest and standby fees on bank debt	**3,267**	3,613
Interest on convertible debentures (1)	**-**	-
Taxes (2)	**-**	-

(1) Interest on the Debentures is payable semi-annually on May 31st and November 30th (note 9).

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

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, Spartan Delta 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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