kelt exploration

FIRST QUARTER REPORT

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2021

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%
FINANCIAL			
Petroleum and natural gas sales	**59,835**	70,918	-16
Cash provided by operating activities	**26,582**	50,172	-47
Adjusted funds from operations (1)	**27,451**	27,360	-
Basic ($/ common share) (1)	**0.15**	0.15	-
Diluted ($/ common share) (1)	**0.14**	0.15	-7
Profit (loss) and comprehensive income (loss)	**2,854**	(74,085)	-104
Basic ($/ common share)	**0.02**	(0.39)	-105
Diluted ($/ common share)	**0.02**	(0.39)	-105
Total capital expenditures, net of dispositions	**29,446**	91,126	-68
Total assets	**775,033**	1,608,870	-52
Net bank debt (surplus) (1)	**(19,971)**	344,664	-106
Convertible debentures	**-**	83,957	-100
Shareholders' equity	**607,285**	850,486	-29
Weighted average shares outstanding (000s)			
Basic	**188,585**	187,794	-
Diluted	**189,944**	187,794	1
OPERATIONS			
Average daily production			
Oil (bbls/d)	**3,972**	9,684	-59
NGLs (bbls/d)	**3,429**	4,583	-25
Gas (mcf/d)	**68,752**	99,236	-31
Combined (BOE/d)	**18,860**	30,806	-39
Production per million common shares (BOE/d) (1)	**100**	164	-39
Average realized prices, before financial instruments (1)			
Oil ($/bbl)	**67.47**	45.58	48
NGLs ($/bbl)	**34.28**	14.37	139
Gas ($/mcf)	**3.77**	2.35	60
Operating netbacks ($/BOE) (1)			
Petroleum and natural gas revenue	**35.25**	25.30	39
Cost of purchases	**(1.08)**	(1.25)	-14
Average realized price, before financial instruments (1)	**34.17**	24.05	42
Realized gain (loss) on financial instruments	**(1.10)**	2.60	-142
Average realized price, after financial instruments (1)	**33.07**	26.65	24
Royalties	**(2.70)**	(1.02)	165
Production expense	**(9.45)**	(10.85)	-13
Transportation expense	**(3.25)**	(3.50)	-7
Operating netback (1)	**17.67**	11.28	57
Total landholdings			
Gross acres	**795,790**	1,051,212	-24
Net acres	**575,648**	819,285	-30

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

MESSAGE TO SHAREHOLDERS

The COVID-19 pandemic that began over a year ago has had a substantial impact on people's lives and continues to impact the way companies conduct their business. Kelt's highest priority remains the health and safety of its employees, partners and the communities where it operates. The Company continues to enforce measures that were introduced to protect the well-being of these stakeholders and is proud of the dedication of its workforce to maintain safe operations and business continuity during a challenging environment.

During 2020, revenue generated by sales of oil and gas was adversely affected by the precipitous decline in oil and gas prices as a result of the unprecedented destruction in demand for the commodities due to global lockdowns and business interruptions. Several pharmaceutical companies have now developed vaccines as a measure to prevent or reduce infections. As the global economy recovers, the demand for oil and gas has also commenced a recovery, with both oil and gas current prices trading at or above pre-pandemic levels.

Kelt's average production for the three months ended March 31, 2021 was 18,860 BOE per day, down 39% from average production of 30,806 BOE per day during the first quarter of 2020. Lower production in 2021 compared to the previous year reflects the sale of the Company's Inga assets completed in August 2020. Average production from the assets disposed for the first quarter of 2020 was approximately 14,369 BOE per day. Quarter over quarter, Kelt recorded significant production growth of 14% from average production of 16,476 BOE per day during the fourth quarter of 2020. In addition, production for the first quarter of 2021 was higher than the Company's internal estimates primarily due to better-than-expected performance from new wells that came on-stream in the Pouce Coupe area of Alberta. Production for the three months ended March 31, 2021 was weighted 39% oil and NGLs, and 61% gas.

Kelt's realized average oil price during the first quarter of 2021 was $67.47 per barrel, up 48% from $45.58 per barrel in the first quarter of 2020. The realized average NGLs price during the first quarter of 2021 was $34.28 per barrel, up 139% from $14.37 per barrel in the same quarter of 2020. Kelt's realized average gas price for the first quarter of 2021 was $3.77 per Mcf, up 60% from $2.35 per Mcf in the corresponding quarter of the previous year.

For the three months ended March 31, 2021, sales revenue was $59.8 million and adjusted funds from operations was $27.5 million ($0.14 per share, diluted); compared to $70.9 million and $27.4 million ($0.15 per share, diluted) respectively, in the first quarter of 2020. At March 31, 2021, the Company had no bank debt outstanding and a working capital surplus of $20.0 million; compared to aggregate bank debt, principal amount of convertible debentures outstanding and working capital deficit of $434.6 million, at March 31, 2020.

Net capital expenditures incurred during the three months ended March 31, 2021 were $29.5 million. During the first quarter of 2021, the Company spent $17.7 million on drill and complete operations and $11.4 million on facilities and pipelines. Part of the infrastructure spending during the quarter was opportunistic, as other companies reduced their capital spending budgets, allowing Kelt to acquire both casing and line pipe at below market prices. This inventory of casing and line pipe will be used by the Company during the remainder of 2021 when it commences tie-ins on numerous wells, as described below.

At Oak/Flatrock, Kelt currently has two Montney wells that have been drilled, completed and tested and eight additional wells that have been drilled and are awaiting completion ("DUCs"). Completion operations on the eight DUCs are expected to commence in the second quarter of 2021. The Company expects to construct a gas compression and oil battery facility at Oak during the third quarter of 2021. Production is expected to commence from the ten new Oak wells during October 2021.

At Pouce Coupe, Kelt commenced production from two high deliverability Montney gas wells during the first quarter of 2021. Both wells combined produced in excess of 22.0 MMcf per day during the month of March 2021. The Company has an inventory of 32 additional locations on its high deliverability gas land block at Pouce Coupe West. The Company has commenced a three-well drilling program in the oilier part of its central Pouce Coupe land block. These wells are expected to be completed and brought on production during the third quarter of 2021.

At Spirit River, Kelt drilled two wells from the same pad in the Charlie Lake formation; one targeting the Lower Charlie Lake and the other targeting the Upper Charlie Lake. These DUCs are expected to be completed and brought on production early in the third quarter of 2021.

At Wembley/Pipestone, Kelt currently has three Montney wells that have been drilled, completed and tested and two additional wells that are DUCs. The Company expects to complete the two DUCs and tie-in both the wells by mid-year 2021. The three drilled and completed Montney wells are expected to be tied-in during the first half of 2022, along with three additional wells that are expected to be drilled during the second half of 2021. Kelt plans to drill, complete and tie-in one more Wembley Montney well that is located in close proximity to existing infrastructure, during the second half of 2021.

Despite better-than-expected production results in the first quarter of 2021, Kelt's 2021 financial and operating outlook and guidance remains unchanged from its previous report included in the Company's press release dated March 11, 2021. Crude oil prices continue to perform better than forecasted and Kelt expects to review its capital spending plans over the next two months.

Despite the roll-out of vaccinations, COVID-19 infections continue to rise in certain countries around the world that may affect the recovery of global oil consumption. Kelt has a strong financial position and has the flexibility operationally to increase capital spending on its portfolio of high rate of return projects. The Company will continue to monitor commodity prices and with continued strength in oil and gas prices, will announce any changes to its 2021 guidance accordingly.

Management looks forward to updating shareholders with 2021 second quarter results on or about August 5, 2021.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
May 6, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

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

The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012. Kelt's assets are comprised of three core operating divisions, namely: (1) Wembley/Pipestone in Alberta; (2) Pouce Coupe/Progress/Spirit River in Alberta; and (3) Oak/Flatrock in British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd. ("Kelt LNG"), a wholly owned subsidiary of Kelt. The head office of the Company is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2. The Company's common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL". 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 6, 2021 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, 2021 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2020. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's Board of Directors approved and authorized the consolidated interim financial statements for issue on May 6, 2021.

GENERAL ADVISORY

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

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

BASIS OF PRESENTATION

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

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

COVID-19

The COVID-19 pandemic remains a risk and continues to cast uncertainty on the global economy and crude oil prices due to the emergence of new COVID-19 variants and potential delays in the rollout of global vaccination programs.

INGA ASSET DISPOSITION

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

FINANCIAL AND OPERATING SUMMARY

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%
FINANCIAL PERFORMANCE			
Petroleum and natural gas sales	**59,835**	70,918	-16
Cash provided by operating activities	**26,582**	50,172	-47
Adjusted funds from operations (1)	**27,451**	27,360	-
Diluted ($/ common share) (1)	**0.14**	0.15	-7
Profit (loss) and comprehensive income (loss)	**2,854**	(74,085)	-104
Diluted ($/ common share)	**0.02**	(0.39)	-105
Total capital expenditures, net of dispositions	**29,446**	91,126	-68
Net bank debt (surplus) (1)	**(19,971)**	344,664	-106
OPERATIONAL PERFORMANCE			
Average daily production (BOE/d)	**18,860**	30,806	-39
Average realized price, before financial instruments (1)	**34.17**	24.05	42
Average realized price, after financial instruments (1)	**33.07**	26.65	24
Operating netback (1)	**17.67**	11.28	57

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

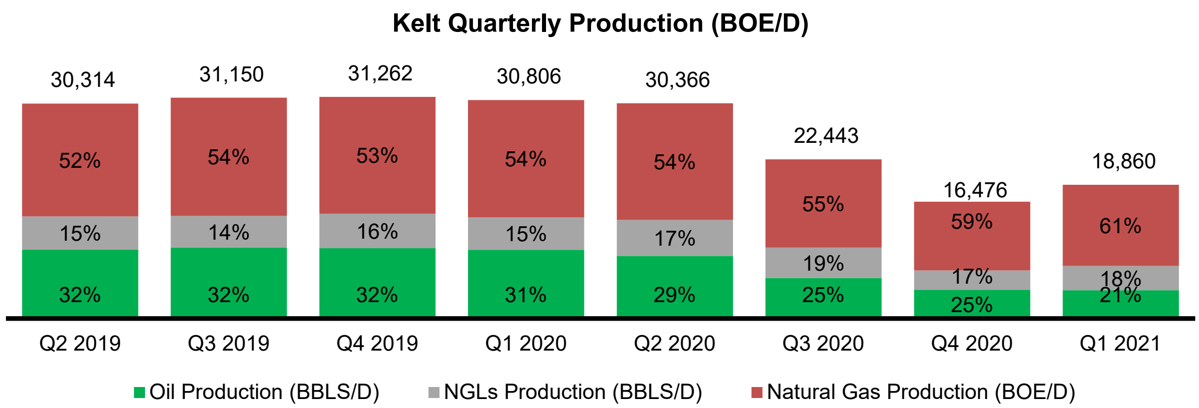
In the first quarter of 2021, Kelt’s financial and operating results are highlighted by the following:

- **Production** – Average production of 18,860 BOE per day (39% oil/NGLs) increased by 14% from 16,476 BOE per day (41% oil/NGLs) in the fourth quarter of 2020 as the Company brought on-stream two wells at Pouce Coupe and two wells at Wembley in the first quarter of 2021.
- **Petroleum and natural gas sales –** For the three months ended March 31, 2021, petroleum and natural gas sales were $59.8 million, an increase of 43% from the fourth quarter of 2020 and a decrease of 16% from the first quarter of 2020. Kelt’s average realized price before financial instruments of $34.17 per BOE increased 29% from the fourth quarter of 2020 and increased 42% from the first quarter of 2020.
- **Adjusted funds from operations** – Adjusted funds from operations of $27.5 million ($0.14 per share, diluted) in the first quarter of 2021 increased 155% from $10.8 million ($0.06 per share, diluted) in the fourth quarter of 2020.
- **Operating netback** – Kelt’s operating netback was $17.67 per BOE for the quarter ended March 31, 2021, up 110% from $8.40 per BOE during the quarter ended December 31, 2020 and up 57% from $11.28 per BOE during the quarter ended March 31, 2020. The increase in the operating netback was driven primarily by an increase in petroleum and natural gas sales on a per BOE basis.
- **Capital investments** – During the first quarter of 2021, capital expenditures, prior to property acquisitions and dispositions, was $29.4 million and included the drilling of 6.0 net wells at Oak and the completion of 2.0 net wells

at Pouce Coupe. Facilities, pipeline and well equipment spend of $11.4 million was focused on new well equipment, and facility and pipeline optimization work.

- **Liquidity** – The Company ended the quarter with a working capital surplus of $20.0 million, and no borrowings on its credit facility other than outstanding letters of credit of $1.2 million. Subsequent to the quarter, Kelt received the second installment of $5.0 million relating to the holdback from the Inga Asset Disposition.

PRODUCTION



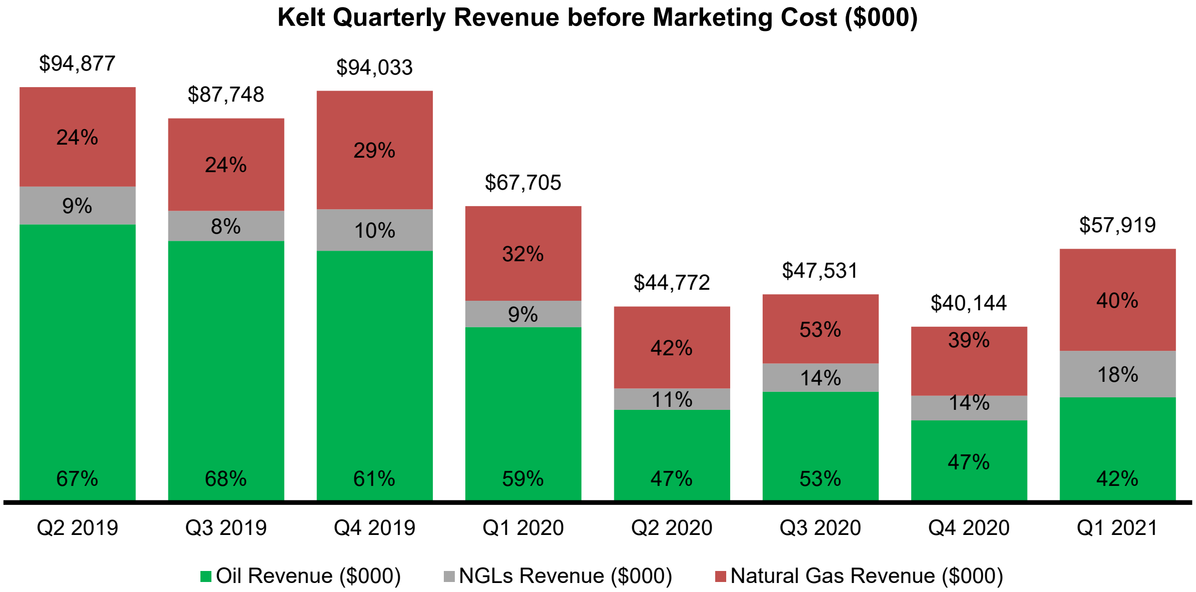
	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%
Average daily production:			
Oil (bbls/d)	**3,972**	9,684	-59
NGLs (bbls/d)	**3,429**	4,583	-25
Gas (mcf/d)	**68,752**	99,236	-31
Combined (BOE/d)	**18,860**	30,806	-39
Oil and NGLs weighting	**39%**	46%	-15

Average production for the three months ended March 31, 2021 decreased 39% as compared to the same period in 2020 and increased 14% compared to the average production during the fourth quarter of 2020. The decrease in production subsequent to the second quarter of 2020 was primarily a result of the Inga Asset Disposition which closed on August 21, 2020.

Oil and NGLs weighting of total production decreased to 39% during the first quarter of 2021 compared to 46% in the comparable period of 2020 and decreased 5% compared to 41% the fourth quarter of 2020.

REVENUE

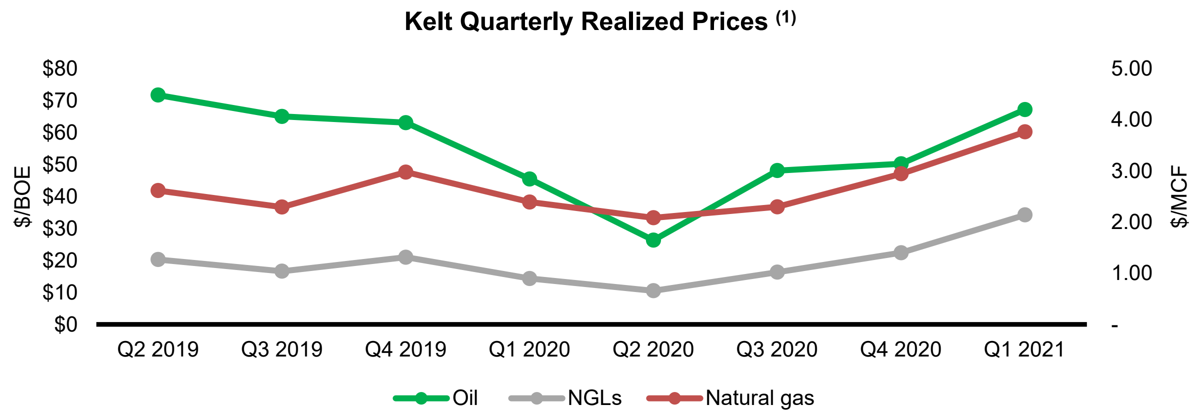
All references to revenue in this discussion are before royalties.



	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%
Revenue, before royalties and financial instruments:			
Oil	**24,039**	40,098	-40
NGLs	**10,579**	5,991	77
Gas	**23,301**	21,616	8
Revenue, before marketing	**57,919**	67,705	-14
Marketing revenue (2)	**1,916**	3,213	-40
Total revenue (1)	**59,835**	70,918	-16
Cost of purchases (3)	**(1,834)**	(3,517)	-48
Kelt Revenue (4)	**58,001**	67,401	-14

(1) Petroleum and natural gas sales as reported in the consolidated financial statements is abbreviated as “total revenue”.
(2) Sales of third party volumes related to the Company's oil blending operations and natural gas activities.
(3) Cost of third party volumes purchased for use and resale in the Company's oil blending operations and natural gas activities.
(4) "Kelt Revenue" is a non-GAAP measure and includes petroleum and natural gas sales, net of the cost of the third party volumes purchased.

Revenue before marketing for the first quarter of 2021 was $57.9 million, down 14% from the first quarter of 2020. The decrease was primarily due to a decrease in production following the Inga Asset Disposition. This was partially offset by a 42% increase in average realized prices in the first quarter of 2021 compared to the first quarter of 2020.



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

Average Realized and Benchmark Prices

	Three months ended March 31		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%
Average realized prices			
Oil ($/bbl)	**67.47**	45.58	48
NGLs ($/bbl)	**34.28**	14.37	139
Gas ($/mcf)	**3.77**	2.35	60
Combined ($/BOE)	**34.17**	24.05	42
Average benchmark prices			
Oil and NGLs			
WTI Cushing Oklahoma (US$/bbl) (1)	**57.79**	45.81	26
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) (2)	**66.59**	51.43	29
Edmonton Pentane (3)	**73.03**	60.25	21
Edmonton Butane (3)	**27.39**	34.65	-21
Edmonton Propane (3)	**30.14**	14.25	112
Edmonton Ethane (3)	**8.16**	5.62	45
Natural Gas			
NYMEX Henry Hub (US$/MMBtu) (4)	**2.67**	1.98	35
AECO 5A (CA$/MMBtu) (4)	**3.15**	2.03	55
Chicago Alliance, into Interstates (CA$/MMBtu) (5)	**8.24**	2.34	252
Dawn (CA$/MMBtu) (5)	**3.77**	2.36	60
Malin (CA$/MMBtu) (5)	**4.03**	3.03	33
Sumas (CA$/MMBtu) (5)	**4.45**	3.52	38
Station 2 (CA$/MMBtu) (5)	**3.06**	1.98	55
Average exchange rate (CA$/US$) (6)	**1.2666**	1.3442	-6

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

(2) Source: Tidal Energy Marketing.

(3) Source: Sproule Associates Limited.

(4) Source: Canadian Gas Price Reporter converted to CA$/MMBtu using monthly average CA$/US$ exchange rate (6).

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

(6) Source: Bank of Canada.

Combined Average Realized Price

Kelt's combined average realized price increased 42% to $34.17 per BOE in the first quarter of 2021 versus the comparable period in 2020. The increase in the average realized price was primarily due to an increase in benchmark commodity prices in 2021.

Oil prices

Benchmark WTI crude oil prices increased 26% for the quarter ended March 31, 2021 compared to the first quarter of 2020. The increase was primarily due to a balancing of global crude oil supply and demand, as continued production supply curtailments from OPEC+ countries offset an overall decrease in total global crude oil demand due to the COVID-19 pandemic.

NGL prices

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

For the three months ended March 31, 2021, Kelt's realized NGLs price increased 139% as compared to the same period in 2020, primarily due to an increase in benchmark WTI prices and regional improvements in NGLs prices.

Natural gas prices

In February 2021 cold weather throughout North America resulted in a significant increase in select US benchmark natural gas daily price indices. Due to the impact from these weather conditions, Chicago benchmark prices increased 252% in the first quarter of 2021 compared to the first quarter of 2020, significantly increasing Kelt's realized natural gas price as 6% of the Company's gas sales are in the Chicago market.

Canadian natural gas benchmark prices also increased in 2021 as compared to 2020 due to a combination of increased Alberta natural gas demand, improved storage injections, and higher pipeline exports when compared to historical five year averages.

Kelt actively manages its natural gas marketing portfolio in order to maximize its netbacks. Over the past twelve months, Kelt has been reducing its exposure to US natural gas markets and increasing its exposure to AECO 5A and Station 2 as the fundamentals for Canadian natural gas prices improved. In the first quarter of 2021, Kelt's natural gas sold at US indices comprised of approximately 37% of natural gas sales compared to approximately 52% in the fourth quarter of 2020.

Kelt's realized natural gas price increased by 60% to $3.77 per MCF in the first quarter of 2021 compared to the first quarter of 2020 primarily as a result of increased benchmark natural gas prices.

RISK MANAGEMENT AND HEDGING ACTIVITIES

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

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

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Realized gain (loss)	**(1,859)**	7,302	-125
Unrealized gain (loss)	**(2,945)**	21,647	-114
Gain (loss) on derivative financial instruments	**(4,804)**	28,949	-117
$ per BOE	**(2.84)**	10.32	-127

Commodity price risk

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

As at May 6, 2021, the following commodity price risk management contracts are outstanding:

Contract Type(1)(2)(3)	Notional Volume	Contract Price	Remaining Term
Crude oil derivative contracts			
WTI fixed price swap	1,500 bbl/d	CAD$58.52/bbl	Apr – Jun 2021
WTI fixed price swap	1,500 bbl/d	CAD$70.00/bbl	Jul – Sep 2021
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.55 per bbl	Apr – Sep 2021
Natural gas derivative contracts			
NYMEX fixed price swap	10,000 MMBtu/d	CAD$4.00/MMBtu	Apr – Oct 2021
AECO 5A fixed price swap	5,000 GJ/d	CAD$2.70/GJ	Apr – Oct 2021
NYMEX fixed price swap	15,000 MMBtu/d	CAD$3.67/MMBtu	Jun – Oct 2021

(1) West Texas Intermediate ("WTI")

(2) NYMEX Henry Hub ("NYMEX")

(3) Mixed Sweet Blend ("MSW")

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 May 6, 2021, there are no foreign exchange risk management contracts outstanding.

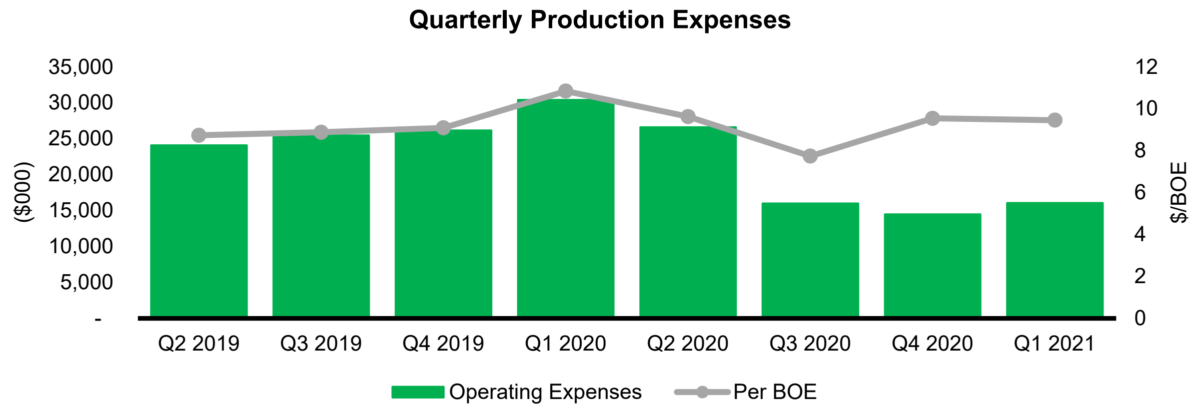
ROYALTIES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Royalties	**4,577**	2,870	59
Average royalty rate (1)	**7.9%**	4.2%	88
$ per BOE	**2.70**	1.02	165

(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 7.9% during the first quarter of 2021, compared to 4.2% during the first quarter of 2020. The primary reason for the increase in the 2021 average royalty rate was due to a recovery of oil prices, and overall increase in royalties were due to fewer wells eligible for deep well royalty deductions.

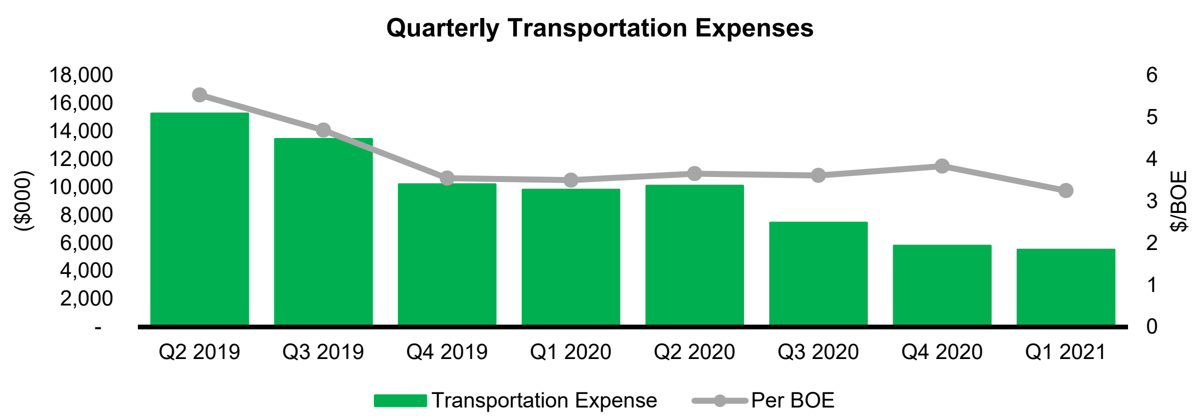
PRODUCTION EXPENSES



	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Production expense	**16,046**	30,404	-47
$ per BOE	**9.45**	10.85	-13

The Company incurred production expenses of $16.0 million during the first three months of 2021, down 47% from the comparative quarter. Production expenses averaged $9.45 per BOE during the first three months of 2021, compared to $10.85 per BOE in the same period in 2020. Production expenses were higher in the first quarter of 2020 due to higher production optimization maintenance work as the Kelt brough 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)	**2021**	2020	%
Transportation expense (1)	**5,515**	9,804	-44
$ per BOE	**3.25**	3.50	-7

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

On a per BOE basis, transportation expense decreased 7% in the first quarter of 2021 compared to the same period in 2020. Over the past twelve months, Kelt has reduced its exposure to US natural gas markets and increased its exposure to AECO 5A and Station 2 which have lower transportation tolls.

FINANCING EXPENSES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Total interest expense	**44**	4,559	-99
Accretion of convertible debentures	**-**	1,168	-100
Accretion of decommissioning obligations	**343**	693	-51
Total financing expense	**387**	6,420	-94
Interest expense per BOE (1)	**0.03**	1.63	-98
Average principal amount outstanding during period:			
Bank debt	**-**	305,301	-100
Convertible debentures	**-**	89,910	-100
Average total principal amount of debt outstanding	**-**	395,211	-100
Average interest rates:			
Bank debt (2)(3)	**NA**	4.2%	-
Convertible debentures (3)	**NA**	5.0%	-

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

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

(3) In the first quarter of 2021, Kelt did not have any outstanding bank debt and convertible debentures.

The Company did not draw any amounts under its credit facility during the three months ended March 31, 2021 resulting in a decrease in total interest expense as compared to the same period in 2020.

Additional information regarding the credit facility 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)	**2021**	2020	%
Salaries and benefits	**2,227**	1,914	16
Other G&A expenses	**940**	1,786	-47
Gross G&A expenses	**3,167**	3,700	-14
Overhead recoveries	**(666)**	(1,888)	-65
G&A expense, net of recoveries	**2,501**	1,812	38
Gross G&A ($ per BOE)	**1.87**	1.32	42
Net G&A ($ per BOE)	**1.47**	0.65	126

G&A expense, net of recoveries, averaged $1.47 per BOE during the first quarter of 2021, an increase of 126% compared to $0.65 per BOE during the first quarter of 2020. On a per BOE basis, the Inga Asset Disposition resulted in an increase in G&A per BOE as production decreased at a higher rate than the reduction in the Company's G&A expenses and a decrease in the Company's overall capital expenditures reduced the allocation for overhead recoveries.

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)	**2021**	2020	%
Stock options	**509**	842	-40
Restricted share units (“RSUs”)	**238**	667	-64
Total SBC expense	**747**	1,509	-50
$ per BOE	**0.44**	0.54	-19

The decrease in SBC expense during the quarter ended March 31, 2021 compared to the same quarter in 2020 is primarily due to increased forfeitures of unvested stock options, fewer restricted shares units issued in recent periods and the lower Black-Scholes value associated with recent option grants.

As at March 31, 2021, stock options and RSUs outstanding represent 7.0% of total shares outstanding (December 31, 2020 – 5.5%).

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Depletion and depreciation	**20,019**	38,956	-49
Impairment	**-**	77,100	-100
Total depletion, depreciation and impairment	**20,019**	116,056	-83
Depletion and depreciation ($/BOE)	**11.79**	13.90	-15
Impairment ($/BOE)	**-**	27.50	-100

Depletion and depreciation expense was $20.0 million for the quarter ended March 31, 2021 compared to 39.0 million in the same quarter in 2020. On a per BOE basis, total depletion and depreciation per BOE decreased 15% compared to the quarter ended March 31, 2020, primarily due to impairments taken in the second quarter of 2020 partially offset by an increase in reserves in 2020.

As at March 31, 2021, the Company concluded that there were no indicators of impairment or reversals of previously recorded impairments as compared to December 31, 2020 therefore an impairment test over the Company’s CGU’s was not conducted.

INCOME TAXES

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Deferred income tax expense	**543**	4,764	-89
Profit (loss) before taxes	**3,397**	(69,321)	-105
Effective tax expense rate	**16.0%**	-6.9%	-333

Kelt’s consolidated combined federal and provincial statutory tax rate averaged 23.4% and 26.0% during the three months ended March 31, 2021 and 2020, respectively.

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 $721.0 million as of March 31, 2021 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**March 31 2021**	December 31 2020	% change
Canadian oil and gas property expenses (COGPE)	10-15%	**85,311**	87,273	-2
Canadian development expenses (CDE)	30-45%	**91,585**	81,882	12
Canadian exploration expenses (CEE)	100%	**44,415**	53,859	-18
Undepreciated capital cost (1) (UCC)	25-37.5%	**179,412**	179,396	-
Share and debt issue costs (SIC/DIC)	5 years	**502**	588	-15
Non-capital losses (2) (NCL)	100%	**319,748**	314,630	2
Estimated tax deductions available, end of period		**720,973**	717,628	-

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

(2) The Company's non-capital losses expire in years 2039 to 2041.

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, 2021 and 2020, respectively.

THREE MONTHS ENDED MARCH 31ST	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Petroleum and natural gas sales	**59,835**	70,918	-16	**35.25**	25.30	39
Cost of purchases	**(1,834)**	(3,517)	-48	**(1.08)**	(1.25)	-14
Realized gain (loss) on financial instruments (1)	**(1,859)**	7,302	-125	**(1.10)**	2.60	-142
Royalties	**(4,577)**	(2,870)	59	**(2.70)**	(1.02)	165
Revenue, after royalties and financial instruments	**51,565**	71,833	-28	**30.37**	25.63	18
Production expense	**(16,046)**	(30,404)	-47	**(9.45)**	(10.85)	-13
Transportation expense	**(5,515)**	(9,804)	-44	**(3.25)**	(3.50)	-7
Operating income/netback (2)	**30,004**	31,625	-5	**17.67**	11.28	57
Financing expense (3)	**(44)**	(4,559)	-99	**(0.03)**	(1.63)	-98
G&A expense	**(2,501)**	(1,812)	38	**(1.47)**	(0.65)	126
Cash premium on financial instruments	**-**	1,230	-100	**-**	0.44	-100
Realized gain (loss) on foreign exchange	**(54)**	320	-117	**(0.03)**	0.11	-127
Other income/expense	**46**	556	-92	**0.03**	0.20	-85
Adjusted funds from operations (2)	**27,451**	27,360	-	**16.17**	9.75	66
Basic ($ per common share) (4)	**0.15**	0.15	-			
Diluted ($ per common share) (4)	**0.14**	0.15	-7			
Common shares outstanding (000s):						
Basic, weighted average	**188,585**	187,794	-			
Diluted, weighted average	**189,944**	187,794	1			

(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, 2021, adjusted funds from operations remained consistent at $27.5 million ($0.14 per share, diluted) compared to $27.4 million ($0.15 per share, diluted) during the first quarter ended March 31, 2020.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%
Profit (loss) and comprehensive income (loss)	**2,854**	(74,085)	-104
$ per common share, basic	**0.02**	(0.39)	-105
$ per common share, diluted (1)(2)	**0.02**	(0.39)	-105
$ per BOE	**1.68**	(26.44)	-106
Wtd avg. shares outstanding, basic (000s)	**188,585**	187,794	-
Wtd avg. shares outstanding, diluted (000s) (1)	**189,944**	187,794	1

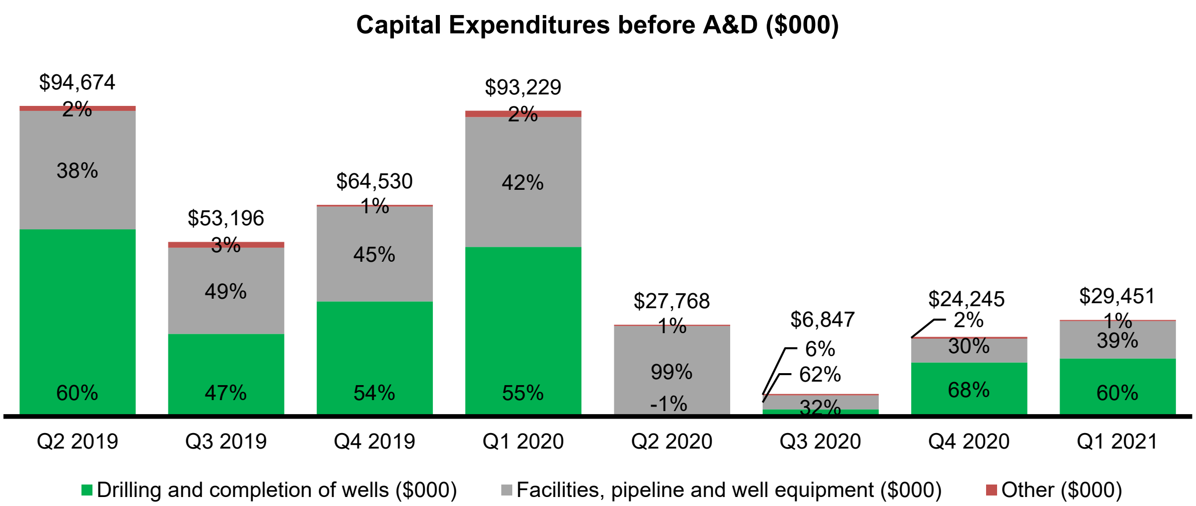
(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted profit per common share for the first quarter ended March 31, 2021 the dilutive impact of the effect of stock options and RSUs was negligible. 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.

Kelt reported a profit of $2.9 million ($0.02 per common share, diluted) for the three months ended March 31, 2021, compared to a loss of $74.1 million in the same three month period of 2020. The increase to profit is primarily due to an impairment expense of $77.1 million taken in first quarter of 2020.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

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



(CA$ thousands, unless otherwise indicated)	Three months ended March 31 2021	2020	%
Capital expenditures:			
Lease acquisition and retention	**277**	404	-31
Geological and geophysical	**30**	1,533	-98
Drilling and completion of wells	**17,676**	51,708	-66
Facilities, pipeline and well equipment	**11,405**	39,576	-71
Corporate assets	**63**	8	688
Capital expenditures, before A&D	**29,451**	93,229	-68
Property acquisitions	**(5)**	16	-131
Property dispositions	**-**	(2,119)	-100
Total capital expenditures, net of dispositions	**29,446**	91,126	-68

Capital expenditures, before A&D was lower in the first quarter of 2021 compared to the same quarter in 2020, due to due to fewer drilling and completion activities in 2021, and additional costs in 2020 that related to the Greater Inga field facilities and pipelines, which were subsequently sold as part of the Inga Asset Disposition.

In the first quarter of 2021, drilling and completion costs of $17.7 million included the drilling of 6.0 net wells at Oak and completion of 2.0 net wells at Pouce Coupe.

Kelt's facility, pipeline and well equipment expenditures were $11.4 million in the first quarter of 2021 and related primarily to new well equipment and pipeline and facility optimization work.

Net wells	Three months ended March 31 2021	2020	%
Drilling	**6.0**	9.0	-33
Completion	**2.0**	7.0	-71

CAPITAL RESOURCES AND LIQUIDITY

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

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

The Company has a $20.0 million demand revolving credit facility ("the Credit Facility") with a Canadian chartered bank. Currently the primary purpose of the Credit Facility is to hold the Company's letters of credit, and to allow the use of hedging activities. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $100.0 million.

	March 31, 2021	December 31, 2020
Bank debt	**-**	-
Working capital deficiency (surplus)	**(19,971)**	(26,261)
Net bank debt (surplus) (1)	**(19,971)**	(26,261)
Annualized quarterly adjusted funds from operations (1)(2)	**109,804**	43,032
Net bank debt (surplus) to annualized quarterly adjusted funds from operations ratio (1)	**(0.2)**	(0.6)

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

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

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

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

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, 2021 there were 188.6 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 2021, 65.3 million common shares traded on the TSX at a weighted average price of $2.36 per common share, up from the volume weighted average trading price of $1.81 per common share during the year ended December 31, 2020.

As at March 31, 2021, officers, directors, and employees have been granted options to purchase 12.3 million common shares of the Company at an average exercise price of $3.65 per common share. In addition, there are 1.0 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 10 of the interim financial statements.

COMMITMENTS

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

(CA$ thousands)	2021	2022	2023	2024	2025	Thereafter
Firm processing commitments	8,701	11,557	11,566	11,607	9,455	34,776
Firm transportation commitments (1)	16,898	20,690	16,051	14,496	12,601	22,361
Total annual commitments	**25,599**	**32,247**	**27,617**	**26,103**	**22,056**	**57,137**

(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, 2021 of CA$/US$1.2575.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended March 31, 2021 and 2020.

SUMMARY OF QUARTERLY RESULTS AND CURRENT ECONOMIC ENVIRONMENT

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

(CA$ thousands, except as otherwise indicated)	**Q1 2021**	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Petroleum and natural gas sales	**59,835**	41,961	48,823	45,454	70,918	97,763	93,274	100,734
Cash provided (used in) by operating activities	**26,582**	3,288	(8,610)	14,429	50,172	35,396	14,640	58,639
Adjusted funds from operations (1)	**27,451**	10,758	9,002	11,712	27,360	46,655	39,173	45,234
Per share – basic ($/common share) (1)	**0.15**	0.06	0.05	0.06	0.15	0.25	0.21	0.25
Per share – diluted ($/common share) (1)	**0.14**	0.06	0.05	0.06	0.15	0.25	0.21	0.25
Profit (loss) and comprehensive income (loss)	**2,854**	26,018	(24,080)	(252,661)	(74,085)	(2,628)	(2,909)	2,740
Per share – basic ($/common share)	**0.02**	0.14	(0.13)	(1.35)	(0.39)	(0.01)	(0.02)	0.01
Per share – diluted ($/common share)	**0.02**	0.14	(0.13)	(1.35)	(0.39)	(0.01)	(0.02)	0.01
Total capital expenditures, net of dispositions	**29,446**	24,470	(497,321)	27,768	91,126	63,983	52,657	91,022
Total assets	**775,033**	759,987	824,751	1,295,965	1,608,870	1,605,465	1,602,566	1,577,824
Net bank debt (surplus) (1)	**(19,971)**	(26,261)	(127,584)	383,200	344,664	328,080	320,507	308,636
Convertible debentures	**-**	-	89,910	85,181	83,957	82,789	81,630	80,512
Shareholders' equity	**607,285**	603,684	576,862	599,399	850,486	923,062	908,190	909,373
Average daily production (BOE/d)	**18,860**	16,476	22,443	30,366	30,806	31,262	31,150	30,314
Average realized price ($/BOE) (1)(2)	**33.07**	23.90	19.31	20.67	26.65	32.53	30.85	35.01
Operating netback ($/BOE) (1)	**17.67**	8.40	7.02	6.56	11.28	18.65	15.68	18.50
Operating netback % of average realized price (2)	**53%**	35%	36%	32%	42%	57%	51%	53%

(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 March 2020, the WHO declared the COVID-19 a pandemic with governments around the world imposing significant public health measures in order to reduce its spread. The COVID-19 pandemic created an unprecedented global crude oil demand reduction for 2020, resulting in a significant decrease in 2020 benchmark crude oil prices as well as forecasted future crude oil prices. This resulted in lower petroleum and natural gas sales revenue in 2020, which in turn reduced adjusted funds from operations and earnings.

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

Crude oil prices reached a bottom in the second quarter of 2020, with unprecedented negative WTI benchmark prices being reached in April 2020. Positive vaccine development and rollout, along with significant production curtailments from OPEC+ and non-OPEC nations, resulted in a significant re-bound in crude oil prices in 2020 and in the first quarter of 2021. However potential delays in the rollout of global vaccination programs, the emergence of new COVID-19 variants, and uncertainty around the continuation of production curtailments, continues to impact forecasts on the estimated length of the pandemic, the extent of the impact on the global economy, and the future impact of the pandemic on the oil and gas industry.

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

In the first quarter of 2021 unusually cold weather conditions throughout North America resulted in a significant increase in select benchmark natural gas daily indices and overall resulted in a higher average realized natural gas price.

Canadian natural gas prices have remained strong in 2021 as due to a combination of increased Alberta natural gas demand, improved storage injections, and higher pipeline exports when compared to historical five year averages.

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.

OUTLOOK AND GUIDANCE

Kelt will continue to monitor the economic impact of the COVID-19 pandemic and the impact to oil and gas prices. As of March 31, 2021, there have been no changes to the Company's previously disclosed financial and operating guidance issued on March 11, 2021.

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 3 of the December 31, 2020 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, 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.

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, 2021 to March 31, 2021 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)	**2021**	2020	%
Cash provided by operating activities	**26,582**	50,172	-47
Change in non-cash working capital	**(312)**	(22,916)	-99
Funds from operations	**26,270**	27,256	-4
Settlement of decommissioning obligations	**1,181**	104	1036
Adjusted funds from operations	**27,451**	27,360	-

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

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

“Net bank debt (surplus)” is equal to “bank debt”, net of “working capital deficit (surplus)”. Working capital deficit (surplus) excludes current bank debt, current convertible debentures, and assets and liabilities held for sale. “Net bank debt (surplus)" is calculated by adding the working capital deficit (surplus) to bank debt. The Company uses a "net bank debt (surplus) and working capital deficit (surplus) to annualized quarterly adjusted funds from operations ratio" and as a benchmark on which management monitors the Company's capital structure and short-term financing requirements. Management believes that this ratio, as well as the Company's "net bank debt (surplus)", provides investors with information to understand the Company's liquidity risk. The "net bank debt (surplus) and working capital deficit (surplus) to annualized quarterly adjusted funds from operations ratio" is also indicative of the "net debt (surplus) to cash flow" calculation used to determine the applicable margin for a quarter under the Company's Credit Facility agreement (though the calculation may not always be a precise match, it is representative).

Other KPI

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

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, 2020, dated March 11, 2021. Additional information is included in Kelt's Annual Information Form dated March 10, 2021 which can be found at www.sedar.com

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2021. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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

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

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "potentially" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the following: Kelt's expected price realizations and future commodity prices; the cost and timing of future capital expenditures and expected results; the Company's ability to continue accumulating land at a low-cost in its core operating areas and potentially monetize non-core assets; the expected timing of well completions, the expected timing of wells bring brought on-production, the expected timing of facility expenditures, the expected timing of facility start-up dates, the expected timing of production additions from capital expenditures; and the Company's expected future financial position and operating results. Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and that the reserves can be profitably produced in the future. Actual reserves may be greater than or less than the estimates provided herein.

Although Kelt believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Kelt cannot give any assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general, operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; failure to obtain necessary regulatory approvals for planned operations; health, safety and environmental risks; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; volatility of commodity prices, currency exchange rate fluctuations; imprecision of reserve estimates; as well as general economic conditions, stock market volatility; and the ability to access sufficient capital. We caution that the foregoing list of risks and uncertainties is not exhaustive.

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

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company’s Annual Information Form (“AIF”) dated March 10, 2021 is filed on SEDAR and can be viewed on their website at www.sedar.com. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to Kelt is also available on its website at www.keltexploration.com.

Notice of no auditor review of the Q1 2020 prior interim financial statements

The Company discloses that its auditors have not reviewed the unaudited consolidated interim financial statements as at and 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.

The unaudited consolidated interim financial statement as at and for the three months ended March 31, 2021 were reviewed by the Company's auditors.

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

(CA$ thousands)	[Notes]	**March 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**33,863**	31,570
Accounts receivable and accrued revenue	[11]	**25,284**	20,954
Prepaid expenses and deposits		**11,323**	11,696
Derivative financial instruments	[11]	**1,584**	2,673
Total current assets		**72,054**	66,893
Deferred income tax asset		**31,337**	31,879
Exploration and evaluation assets	[6]	**54,872**	53,449
Property, plant and equipment	[7]	**616,770**	607,766
Total assets		**775,033**	759,987
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**46,167**	36,565
Derivative financial instruments	[11]	**3,071**	1,214
Decommissioning obligations	[9]	**2,224**	2,169
Lease liability		**621**	684
Total current liabilities		**52,083**	40,632
Decommissioning obligations	[9]	**114,998**	114,891
Lease liability		**667**	780
Total liabilities		**167,748**	156,303
SHAREHOLDERS' EQUITY			
Shareholders' capital	[10]	**1,141,586**	1,141,517
Contributed surplus and reserve		**(18,375)**	(19,053)
Deficit		**(515,926)**	(518,780)
Total shareholders' equity		**607,285**	603,684
Total liabilities and shareholders' equity		**775,033**	759,987
Commitments	[13]		

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

On behalf of the Board of Directors:

[signed]
David J. Wilson, Director

[signed]
Neil G. Sinclair, Director

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

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Notes]	**2021**	2020
Revenue			
Petroleum and natural gas sales	[12]	**59,835**	70,918
Royalties		**(4,577)**	(2,870)
		55,258	68,048
Expenses			
Production		**16,046**	30,404
Transportation		**5,515**	9,804
Cost of purchases		**1,834**	3,517
Financing		**387**	6,420
General and administrative		**2,501**	1,812
Share based compensation	[10]	**747**	1,509
Exploration and evaluation	[6]	**-**	320
Depletion, depreciation and impairment	[7]	**20,019**	116,056
		47,049	169,842
Gain (loss) on derivative financial instruments	[11]	**(4,804)**	28,949
Foreign exchange gain (loss)		**(54)**	320
Premium on flow-through shares		**-**	1,346
Gain on sale of assets		**-**	1,703
Other expenses		**-**	(401)
Other income		**46**	556
Profit (loss) before taxes		**3,397**	(69,321)
Deferred income tax expense		**(543)**	(4,764)
Profit (loss) and comprehensive income (loss)		**2,854**	(74,085)
Profit (Loss) per common share			
Basic		**0.02**	(0.39)
Diluted		**0.02**	(0.39)

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

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

		Shareholders' capital					
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2020		188,580	1,141,517	(57,668)	38,615	(518,780)	603,684
Profit and comprehensive income		-	-	-	-	2,854	2,854
Vesting of restricted share units	[10]	10	69	-	(69)	-	-
Share based compensation	[10]	-	-	-	747	-	747
Balance at March 31, 2021		**188,590**	**1,141,586**	**(57,668)**	**39,293**	**(515,926)**	**607,285**

Balance at December 31, 2019		187,786	1,137,121	(57,668)	37,582	(193,973)	923,062
Loss and comprehensive loss		-	-	-	-	(74,085)	(74,085)
Vesting of restricted share units	[10]	13	90	-	(90)	-	-
Share based compensation	[10]	-	-	-	1,509	-	1,509
Balance at March 31, 2020		187,799	1,137,211	(57,668)	39,001	(268,058)	850,486

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

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

(CA$ thousands)	[Notes]	Three months ended March 31 **2021**	2020
Operating activities			
Profit (loss) and comprehensive income (loss)		**2,854**	(74,085)
Items not affecting cash:			
Accretion		**343**	1,861
Share based compensation		**747**	1,509
Exploration and evaluation		**-**	320
Depletion, depreciation and impairment		**20,019**	116,056
Unrealized (gain) loss on derivative financial instruments	[11]	**2,945**	(21,647)
Other expenses		**-**	401
Premium on flow-through shares		**-**	(1,346)
Gain on sale of assets		**-**	(1,703)
Deferred income tax expense		**543**	4,764
Cash premiums on derivatives		**-**	1,230
Settlement of decommissioning obligations	[9]	**(1,181)**	(104)
Change in non-cash operating working capital	[14]	**312**	22,916
Cash provided by operating activities		**26,582**	50,172
Financing activities			
Increase in bank debt		**-**	10,000
Increase in financing liability		**-**	28,706
Repayment of lease liability principle		**(176)**	(319)
Cash provided by (used in) financing activities		**(176)**	38,387
Investing activities			
Exploration and evaluation assets	[6]	**(2,425)**	(1,937)
Property, plant and equipment	[7]	**(27,026)**	(91,292)
Property acquisitions		**5**	(15)
Property dispositions		**-**	2,118
Change in non-cash investing working capital	[14]	**5,333**	19,566
Cash (used in) investing activities		**(24,113)**	(71,560)
Net change in cash and cash equivalents		**2,293**	16,999
Cash and cash equivalents, beginning of period		**31,570**	8,365
Cash and cash equivalents, end of period		**33,863**	25,364

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, 2021
[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 are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL".

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

2. COVID-19 and Significant Judgements and Estimates

The COVID-19 pandemic remains a risk and continues to cast uncertainty on the global economy and crude oil prices due to the emergence of new COVID-19 variants and potential delays in the rollout of global vaccination programs.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 3 of the December 31, 2020 consolidated annual financial statements.

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

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on May 5, 2021 for issue on May 6, 2021.

a) Statement of compliance

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, 2020.

b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 11 of these financial statements.

Certain balances have been reclassified to align to the current year presentation.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 4 of the December 31, 2020 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements as at March 31, 2021 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, 2020.

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

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

On August 21, 2020, Kelt completed the disposition of its assets located at Inga, Fireweed and Stoddart in British Columbia (“Inga Assets”), for consideration of $503.9 million after closing adjustments and transaction costs. The disposition (hereinafter referenced as the “Inga Assets Disposition”) had an effective date of July 1, 2020.

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback held in trust and recorded as a deposit on the balance sheet. As at March 31, 2021, $10.0 million of the holdback remained as a deposit held in trust. Subsequent to March 31, 2021, Kelt received $5.0 million of the holdback. The remaining holdback of $5.0 million is expected to be released in the third quarter of 2021 provided no claims are brought forth by the purchaser.

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, 2021	December 31, 2020
Balance, beginning of period	**53,449**	73,891
Additions	**2,425**	2,853
Property acquisitions	**-**	2,113
Property dispositions	**-**	(20,321)
Transfers to property, plant and equipment	**(1,002)**	(1,868)
Expired mineral leases	**-**	(3,219)
Balance, end of period	**54,872**	53,449

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**March 31, 2021**	December 31, 2020
Development and production (“D&P”) assets	**615,442**	606,332
Right-of-use (“ROU”) assets	**1,111**	1,243
Corporate assets	**217**	191
Total net carrying value of property, plant and equipment	**616,770**	607,766

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, 2019	2,255,430	4,800	3,501	2,263,731
Additions	148,798	438	884	150,120
Property acquisitions	1,245	-	-	1,245
Property dispositions	(1,154,435)	-	(1,882)	(1,156,317)
Decommissioning costs	(1,008)	-	-	(1,008)
Transfers from E&E	1,868	-	-	1,868
Balance at December 31, 2020	**1,251,898**	**5,238**	**2,503**	**1,259,639**
Additions	**26,963**	**63**	**-**	**27,026**
Property acquisitions	**(5)**	-	**-**	**(5)**
Decommissioning costs	**1,000**	**-**	**-**	**1,000**
Transfers from E&E	**1,002**	**-**	**-**	**1,002**
Balance at March 31, 2021	**1,280,858**	**5,301**	**2,503**	**1,288,662**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2019	787,853	4,304	1,163	793,320
Depletion and depreciation expense	110,904	743	976	112,623
Impairment	336,500	-	-	336,500
Dispositions [note 5]	(589,691)	-	(879)	(590,570)
Balance at December 31, 2020	**645,566**	**5,047**	**1,260**	**651,873**
Depletion and depreciation expense	**19,850**	**37**	**132**	**20,019**
Balance at March 31, 2021	**665,416**	**5,084**	**1,392**	**671,892**

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

As at March 31, 2021, the Company concluded that there were no indicators of impairment or reversals of previously recorded impairments as compared to December 31, 2020 therefore an impairment test was not conducted.

8. BANK DEBT

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

There are no borrowings under the Credit Facility at March 31, 2021 other than outstanding letters of credit of $1.2 million. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount. The credit facility is subject to semi-annual redeterminations. There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $100.0 million.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on the prime rate plus the applicable margin. The applicable margin ranges from 25 basis points to 400 basis points depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.25 times to greater than three times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 1.25% to 5.25%, depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.25 times to greater than three times.

9. DECOMMISSIONING OBLIGATIONS

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

	March 31, 2021	December 31, 2020
Balance, beginning of period	**117,060**	160,023
Obligations incurred	**438**	1,265
Obligations acquired	**-**	1,015
Obligations disposed	**-**	(42,917)
Obligations settled	**(1,181)**	(1,945)
Changes in discount rate	**(25,679)**	35,862
Changes in inflation rate	**25,892**	(36,101)
Revisions to estimates	**349**	(2,034)
Accretion expense	**343**	1,892
Balance, end of period	**117,222**	117,060
Decommissioning obligations – current	**2,224**	2,169
Decommissioning obligations – non-current	**114,998**	114,891
Key assumptions		
Risk free rate	**1.97%**	1.21%
Inflation rate	**1.97%**	1.21%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2021 the undiscounted amount of the estimated cash flows required to settle the obligation is $117.2 million (December 31, 2020 – $117.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.97%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $229.0 million at March 31, 2021 (December 31, 2020 – $174.8 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

10. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of March 31, 2021 (December 31, 2019 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2019	187,786	1,137,121
Issued for cash on exercise of stock options	277	274
Transfer from contributed surplus on exercise of stock options	-	123
Released upon vesting of restricted share units	517	3,997
Share issue costs, net of deferred taxes	-	2
Balance at December 31, 2020	**188,580**	**1,141,517**
Released upon vesting of restricted share units	**10**	**69**
Balance at March 31, 2021	**188,590**	**1,141,586**

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2019	10,015	4.76
Granted	2,725	1.03
Exercised (1)	(277)	0.99
Forfeited	(1,267)	4.44
Expired	(1,229)	4.77
Balance at December 31, 2020	**9,967**	**3.88**
Granted	**2,460**	**2.72**
Expired	**(160)**	**3.92**
Balance at March 31, 2021	**12,267**	**3.65**

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

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

	Three months ended March 31	
	2021	2020
Risk free interest rate	**0.6%**	1.6%
Expected life (years)	**3.6**	3.0
Expected volatility (1)	**79.4%**	47.5%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**5.3%**	4.5%
Fair value of options granted during the year ($/share)	**1.47**	1.60

(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, 2021:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	6,593	4.2	2.12	596	2.76
$3.51 to $6.50	5,085	1.6	5.18	4,389	5.25
$6.51 to $9.50	589	1.8	7.62	486	7.53
Total	**12,267**	**3.0**	**3.65**	**5,471**	**5.18**

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, 2019	865
Granted	10
Released upon vesting	(517)
Forfeited	(12)
Balance at December 31, 2020	**346**
Granted	**657**
Released upon vesting	**(10)**
Balance at March 31, 2021	**993**

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	
	2021	2020
Stock options	**509**	842
Restricted share units	**238**	667
Total share based compensation expense	**747**	1,509

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)	**2021**	2020
Weighted average common shares outstanding, basic	**188,585**	187,794
Effect of stock options and RSUs	**1,359**	146
Weighted average common shares outstanding, diluted	**189,944**	187,940

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, 2021, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

As at March 31, 2021, the following commodity price risk management contracts are outstanding:

Contract Type(1)(2)(3)	Notional Volume	Contract Price	Remaining Term
Crude oil derivative contracts			
WTI fixed price swap	1,500 bbl/d	CAD$58.52/bbl	Apr – June 2021
WTI fixed price swap	1,500 bbl/d	CAD$70.00/bbl	Jul – Sept 2021
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.55/bbl	Apr – Sept 2021
Natural gas derivative contracts			
NYMEX fixed price swap	10,000 MMBtu/d	CAD$4.00/MMBtu	Apr – Oct 2021
AECO 5A fixed price swap	5,000 GJ/d	CAD$2.70/GJ	Apr – Oct 2021

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

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

Contract Type(1)	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
NYMEX fixed price swap	15,000 MMBtu/d	CAD$3.67/MMBtu	Jun – Oct 2021

(1) NYMEX Henry Hub (“NYMEX”)

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, 2021, there are no foreign exchange risk management contracts outstanding.

Gains and losses on risk management contracts

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

	Three months ended March 31	
	2021	2020
Realized gain (loss)	**(1,859)**	7,302
Unrealized gain (loss)	**(2,945)**	21,647
Gain (loss) on derivative financial instruments	**(4,804)**	28,949

Fair value measurements

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy. The fair value hierarchy has the following levels:

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

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

The fair value of cash and cash equivalents, accounts receivable and accrued sales, deposits, accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. Bank debt bears interest at a floating market rate and accordingly the fair market value of bank debt approximates the carrying amount.

Credit Risk

As at March 31, 2021, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

Accounts receivable and accrued sales	**March 31, 2021**	December 31, 2020
Joint venture partners	**2,775**	3,510
Oil and gas marketers	**21,957**	16,650
GST input tax credits	**810**	1,011
Interest receivable	**-**	104
Risk management contracts	**129**	86
Other	**366**	346
Expected credit loss provision	**(753)**	(753)
Accounts receivable and accrued sales	**25,284**	20,954

During the quarter ended March 31, 2021, sales to five oil and gas marketers accounted for approximately 97% of total sales. During the comparative period ended December 31, 2020, sales to four oil and gas marketers accounted for approximately 82% of total sales. Kelt has mitigated some of its credit risk through parental guarantees (with terms up to five years) and through the majority of its sales to oil and gas marketers which have been rated investment-grade by an independent ratings agency.

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30-90 days.

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. As of March 31, 2021, the collection risk on outstanding accounts receivable balances is considered low as only 2.0% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2020 – 5.0%).

Liquidity Risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities as at March 31, 2021 include accounts payable, derivative financial instruments and lease liabilities. The Company manages liquidity risk with its budgeting process which sets out expected debt levels, capital expenditures and funds flow from operations. In addition, risk management contracts such as derivative financial instruments may be used to protect future revenue. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements and expected revenues.

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

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

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	46,167	-	-	**46,167**
Derivative financial instruments	3,071	-	-	**3,071**
Lease liability	621	667	-	**1,288**
Total	**49,859**	**667**	**-**	**50,526**

Capital Management

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

As at March 31, 2021, Kelt is without any long-term bank or financial obligations and has a positive working capital surplus of $20.0 million.

At March 31, 2021, the Company has a $20.0 million demand credit facility for the purpose of short-term working capital management, hedging and letters of credit. Based on current commodity prices and the uncertain impacts of COVID-19, Kelt does not anticipate using bank debt to fund capital expenditures until market conditions improve.

	March 31, 2021	December 31, 2020
Bank debt	**-**	-
Working capital surplus	**(19,971)**	(26,261)
Net bank debt (1)	**(19,971)**	(26,261)
Annualized quarterly adjusted funds from operations (2)(3)	**109,804**	43,032
Net bank debt to annualized quarterly adjusted funds from operations ratio (2)	**(0.2)**	(0.6)

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

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

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

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

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at March 31, 2021, the Company is in compliance with all covenants as no bank debt has been drawn against its Credit Facility. The Company is not subject to any other externally imposed capital requirements.

12. REVENUE

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the quarter ended March 31, 2021, transportation costs incurred in relation to these contracts was $2.5 million (March 31, 2020 – $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 2023.

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

	Three months ended March 31	
	2021	2020
Oil production	**23,852**	39,924
Oil treating and other	**187**	174
NGLs production	**10,579**	5,991
Gas production	**23,060**	21,304
Gas processing and other	**241**	312
Marketing revenue	**1,916**	3,213
Total petroleum and natural gas sales	**59,835**	70,918

Included in accounts receivable at March 31, 2021 is $22.0 million (December 31, 2020 – $16.7 million) of accrued oil and gas sales related to March 2021 production.

13. COMMITMENTS

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

	2021	2022	2023	2024	2025	Thereafter
Firm processing commitments	8,701	11,557	11,566	11,607	9,455	34,776
Firm transportation commitments (1)	16,898	20,690	16,051	14,496	12,601	22,361
Total annual commitments	**25,599**	**32,247**	**27,617**	**26,103**	**22,056**	**57,137**

(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, 2021 of CA$/US$1.2575.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2021**	2020
Accounts receivable and accrued sales	**(4,330)**	11,863
Prepaid expenses and deposits	**373**	362
Accounts payable and accrued liabilities	**9,602**	30,658
Change in non-cash working capital	**5,645**	42,883
Relating to:		
Operating activities	**312**	22,916
Investing activities	**5,333**	19,566
Items not impacting cash	**-**	401
Change in non-cash working capital	**5,645**	42,883

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	**2021**	2020
Interest and standby fees on bank debt	**32**	3,267
Taxes (1)	**-**	-

(1) 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
MSW	Mixed Sweet Blend Edmonton
NYMEX	New York Mercantile Exchange
Station 2	Spectra Energy receipt location
NGX	Natural Gas Exchange Inc. (Canada)
API	American Petroleum Institute
MD&A	Management's Discussion and Analysis
Q1	First quarter ended March 31st
Q2	Second quarter ended June 30th
Q3	Third quarter ended September 30th
Q4	Fourth quarter ended December 31st
YTD	Year to date
BT	Before income taxes
AT	After income taxes
1P	Proved reserves
2P	Proved plus probable reserves

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

Natural gas is equated to oil on the basis of 6 mcf = 1 BOE

Sulphur is equated to gas on the basis of 1LT = 10 mcf (1 BOE = 0.6 LT)

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Geri L. Greenall [2, 3, 6]
Chief Financial Officer, Spartan Delta Corp.

William C. Guinan [1, 5]
Independent Businessman

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

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

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

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

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President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

Douglas J. Errico
Senior Vice President, Land and Corporate Development

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

David A. Gillis
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick W.G. Miles
Vice President, Exploration

Carol Van Brunschot
Vice President, Marketing

Louise K. Lee
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