SECOND QUARTER REPORT

AS AT AND FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2020

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
FINANCIAL						
Petroleum and natural gas sales	**45,454**	100,734	-55	**116,372**	203,319	-43
Cash provided by operating activities	**14,429**	58,639	-75	**64,601**	112,452	-43
Adjusted funds from operations (1)	**11,712**	45,234	-74	**39,072**	96,693	-60
Basic ($/ common share) (1)	**0.06**	0.25	-76	**0.21**	0.53	-60
Diluted ($/ common share) (1)	**0.06**	0.25	-76	**0.21**	0.52	-60
Profit (loss) and comprehensive income (loss)	**(252,661)**	2,740	-9321	**(326,746)**	12,109	-2798
Basic ($/ common share)	**(1.35)**	0.01	-13600	**(1.74)**	0.07	-2586
Diluted ($/ common share)	**(1.35)**	0.01	-13600	**(1.74)**	0.07	-2586
Total capital expenditures, net of dispositions	**27,768**	91,022	-69	**118,894**	198,984	-40
Total assets	**1,295,965**	1,577,824	-18	**1,295,965**	1,577,824	-18
Bank debt	**320,300**	250,993	28	**320,300**	250,993	28
Convertible debentures	**85,181**	80,512	6	**85,181**	80,512	6
Shareholders' equity	**599,399**	909,373	-34	**599,399**	909,373	-34
Weighted average shares outstanding (000s)						
Basic	**187,794**	184,151	2	**187,845**	184,085	2
Diluted	**187,848**	184,532	2	**188,630**	184,513	2
OPERATIONS						
Average daily production						
Oil (bbls/d)	**8,824**	9,727	-9	**9,254**	8,772	5
NGLs (bbls/d)	**5,066**	4,679	8	**4,825**	4,293	12
Gas (mcf/d)	**98,853**	95,450	4	**99,045**	93,779	6
Combined (BOE/d)	**30,366**	30,314	-	**30,587**	28,695	7
Production per million common shares (BOE/d)(1)	**162**	165	-2	**163**	156	4
Average realized prices, before financial instruments(1)						
Oil ($/bbl)	**26.37**	72.17	-63	**36.43**	69.95	-48
NGLs ($/bbl)	**10.53**	20.28	-48	**12.35**	22.51	-45
Gas ($/mcf)	**2.04**	2.75	-26	**2.20**	3.95	-44
Operating netbacks ($/BOE) (1)						
Petroleum and natural gas sales	**16.45**	36.52	-55	**20.90**	39.14	-47
Cost of purchases	**(0.40)**	(1.56)	-74	**(0.83)**	(1.52)	-45
Average realized price, before financial instruments(1)	**16.05**	34.96	-54	**20.07**	37.62	-47
Realized gain (loss) on financial instruments	**4.62**	0.05	9140	**3.60**	(0.13)	-2869
Average realized price, after financial instruments(1)	**20.67**	35.01	-41	**23.67**	37.49	-37
Royalties	**(0.84)**	(2.25)	-63	**(0.93)**	(2.14)	-57
Production expense	**(9.62)**	(8.73)	10	**(10.24)**	(9.39)	9
Transportation expense	**(3.65)**	(5.53)	-34	**(3.57)**	(5.17)	-31
Operating netback (1)	**6.56**	18.50	-65	**8.93**	20.79	-57
Total landholdings						
Gross acres	**1,043,152**	1,052,295	-1	**1,043,152**	1,052,295	-1
Net acres	**811,865**	818,283	-1	**811,865**	818,283	-1

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

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. ("Kelt" or the "Company") reports its financial and operating results to shareholders for the second quarter ended June 30, 2020.

Kelt continues to monitor current market conditions resulting from the COVID-19 pandemic. The Company's highest priority remains the health and safety of its employees, partners and the communities where it operates. Kelt continues to maintain measures that have been put in place to protect the well-being of these stakeholders and is proud of the dedication of its workforce to maintain safe operations and business continuity in a challenging environment.

Average production for the three months ended June 30, 2020 was 30,366 BOE per day, relatively unchanged compared to average production of 30,314 BOE per day during the second quarter of 2019. Production for the three months ended June 30, 2020 was weighted 46% oil and NGLs and 54% gas.

Kelt's realized average oil price during the second quarter of 2020 was $26.37 per barrel, down 63% from $72.17 per barrel in the second quarter of 2019. The significant decrease in realized oil prices were primarily related to the unprecedented decline in global oil demand resulting from the COVID-19 pandemic, despite the efforts of global oil producers to reduce supply by curtailing portions of their oil production. The realized average NGLs price during the second quarter of 2020 was $10.53 per barrel, down 48% from $20.28 per barrel in the same quarter of 2019. The decrease in realized NGL prices corresponded with the much weaker Edmonton benchmark prices for pentane and butane during the second quarter of 2020.

Kelt's realized average gas price for the second quarter of 2020 was $2.04 per Mcf, down 26% from $2.75 per Mcf in the corresponding quarter of the previous year. As producers in Canada and the United States shut in certain oil and gas wells during the COVID-19 pandemic, North American gas supply was reduced considerably. However, the pandemic also resulted in global gas demand destruction which in turn negatively impacted North American LNG exports. As a result, natural gas prices dropped significantly in most North American gas hubs as gas storage levels were running significantly ahead of historical levels.

For the three months ended June 30, 2020, revenue was $45.5 million and adjusted funds from operations was $11.7 million ($0.06 per share, diluted), compared to $100.7 million and $45.2 million ($0.25 per share, diluted) respectively, in the second quarter of 2019.

Net capital expenditures incurred during the three months ended June 30, 2020 were $27.8 million, down 69% from $91.0 million in capital expenditures during the second quarter of 2019. The majority of the capital expenditures during the second quarter of 2020 was incurred on facilities and pipelines for projects that were initiated in late 2019 and early 2020.

At June 30, 2020, the Company's bank debt outstanding (before working capital) was $320.3 million. Kelt and its syndicate of lenders agreed to extend the revolving period applicable to the Company's existing $350.0 million revolving credit facility to August 31, 2020.

On July 22, 2020, Kelt announced that it had entered into an agreement to sell its Inga/Fireweed/Stoddart assets ("Inga Assets") in British Columbia that are held by its wholly owned subsidiary, Kelt Exploration (LNG) Ltd. ("Kelt LNG"), to ConocoPhillips (the "Purchaser"). Kelt will receive cash proceeds of $510.0 million, prior to closing adjustments, and the Purchaser will assume certain specific financial obligations related to the Inga Assets in the amount of approximately $41.0 million. The effective date for the transaction is July 1, 2020. Completion of the transaction is subject to customary closing conditions and is expected to occur on or around August 21, 2020.

Kelt, pro-forma the completion of the sale of its Inga Assets, will be in a position of financial strength, with no debt, positive working capital and a large Montney land acreage position (374,528 net acres or 585 net sections) to grow the Company's remaining production base as commodity prices improve. In addition to its three remaining Montney play areas at Wembley/Pipestone, Pouce Coupe/Progress and Oak/Flatrock, the Company will also be in a position to develop its Charlie Lake play (74,719 net acres or 117 net sections) in Alberta.

Average production for the second quarter of 2020, excluding production related to the Inga Assets, was 15,937 BOE per day (38% oil and NGLs and 62% gas). The Company, excluding wells related to the Inga Assets, currently has an estimated 7,500 to 8,500 BOE per day of production behind pipe associated with 11 wells that have been drilled and are awaiting tie-in as follows:

(i) Wembley (sfc 12-5) 00/09-04-073-06W6 – drilled, completed & tested;
(ii) Wembley (sfc 10-28) 00/03-04-074-07W6 – drilled, completed & tested;

(iii) Wembley (sfc 02/14-2) 00/13-13-073-08W6 – drilled, completed & tested;
(iv) Wembley (sfc 16-26) 00/13-13-072-07W6 – drilled, completed & tested;
(v) Wembley (sfc 03/16-8) 02/16-10-72-7W6 – drilled (DUC);
(vi) Oak (sfc 5-31) 00/13-05-087-18W6 – drilled, completed & tested;
(vii) Oak (sfc A5-31) 00/16-06-087-18W6 – drilled, completed & tested;
(viii) Oak (sfc 5-33) 00/01-09-087-18W6 – drilled (DUC);
(ix) Oak (sfc A5-33) 00/04-10-087-18W6 – drilled (DUC);
(x) Oak (sfc A13-12) 00/16-23-087-18W6 – drilled (DUC); and
(xi) Oak (sfc B13-12) 00/14-24-087-18W6 – drilled (DUC).

Kelt will continue to reassess its ability to reasonably estimate and provide financial guidance during this period of heightened commodity price volatility and economic uncertainty. Management looks forward to updating shareholders with 2020 third quarter results on or about November 10, 2020.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
August 6, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

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

The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012. Kelt's assets are comprised of four core operating divisions, namely: (1) Wembley/Pipestone in Alberta; (2) Pouce Coupe/Progress in Alberta; (3) Inga/Fireweed in British Columbia; and (4) Oak/Flatrock in British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd. ("Kelt LNG"), a wholly owned subsidiary of Kelt. The head office of the Company is located at Suite 300, 311 - 6th Avenue S.W., Calgary, Alberta T2P 3H2. The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively. Additional information relating to Kelt can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis ("MD&A") is dated August 6, 2020 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three and six months ended June 30, 2020 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2019. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the consolidated interim financial statements for issue on August 6, 2020.

GENERAL ADVISORY

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

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

BASIS OF PRESENTATION

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

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

COVID 19

On January 30, 2020 the World Health Organization (“WHO”) declared a Public Health Emergency of International Concern for a new novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic and governments around the world have imposed significant public health measures in order to reduce its spread. The reduction in global crude oil demand as a result of the COVID-19 pandemic resulted in a collapse in crude oil prices starting in March and bottoming out in April with WTI crude oil prices trading at a negative value. However crude oil production curtailments both by OPEC and non-OPEC members, combined with oil demand returning as countries started the process to re-open their economies in the second quarter, resulted in benchmark WTI prices rebounding to USD$38.31 per barrel in June. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve, with the potential of another wave of new infections impacting the ability of countries to fully re-open their economies.

As a result of the significant uncertainty in market conditions, Kelt announced that it withdrew its 2020 corporate guidance in a press release dated April 23, 2020. The corporate guidance was previously included in its management discussion and analysis for the year ended December 31, 2019 dated March 9, 2020 and later updated in a press release dated March 17, 2020. It remains uncertain how long current market conditions will persist.

FINANCIAL AND OPERATING SUMMARY

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**45,454**	100,734	-55	**116,372**	203,319	-43
Cash provided by operating activities	**14,429**	58,639	-75	**64,601**	112,452	-43
Adjusted funds from operations (1)	**11,712**	45,234	-74	**39,072**	96,693	-60
Diluted ($/ common share) (1)	**0.06**	0.25	-76	**0.21**	0.52	-60
Profit (loss) and comprehensive income (loss)	**(252,661)**	2,740	-9321	**(326,746)**	12,109	-2798
Diluted ($/ common share)	**(1.35)**	0.01	-13600	**(1.74)**	0.07	-2586
Total capital expenditures, net of dispositions	**27,768**	91,022	-69	**118,894**	198,984	-40
Bank debt	**320,300**	250,993	28	**320,300**	250,993	28
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**30,366**	30,314	-	**30,587**	28,695	7
Average realized price, before financial instruments (1)	**16.05**	34.96	-54	**20.07**	37.62	-47
Average realized price, after financial instruments (1)	**20.67**	35.01	-41	**23.67**	37.49	-37
Operating netback (1)	**6.56**	18.50	-65	**8.93**	20.79	-57

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

In the second quarter of 2020, Kelt’s financial and operating results were significantly impacted by reduced economic activity caused by the COVID-19 pandemic, which has dramatically lowered global crude oil prices.

- Average production of 30,366 BOE per day (46% oil/NGLs) remained consistent with the second quarter of 2019 of 30,314 BOE per day (48% oil/NGLs) and the first quarter of 2020 of 30,806 BOE per day (46% oil/NGLs).
- Petroleum and natural gas sales for the three months ended June 30, 2020 was $45.5 million, down 55% from $100.7 million in the same quarter of 2019. Kelt’s average realized price before financial instruments of $16.05 per BOE during the second quarter of 2020 is 54% lower than the average realized price before financial instruments in the second quarter of 2019, and 33% lower than the average realized price before financial instruments in the first quarter of 2020. The decrease in revenue for the second quarter of 2020 is primarily due to lower crude prices as a result of the decrease in global oil demand due to a reduction in global economic activity from the COVID-10 pandemic.

- Kelt's operating netback was $6.56 per BOE for the quarter ended June 30, 2020, down 42% from $11.28 per BOE from the quarter ended March 31, 2020 and down 65% from $18.50 per BOE during the quarter ended June 30, 2019. The decrease in sales was partially offset by an increase on the Company's derivative financial instruments which realized a gain of $4.62 per BOE during the second quarter of 2020.
- Capital expenditures before minor property acquisitions and dispositions incurred during the three months ended June 30, 2020 were $27.8 million.
- Bank debt was $320.3 million at June 30, 2020 compared to a senior credit facility of $350.0 million.
- Subsequent to June 30, 2020, on July 22, 2020 Kelt announced it has entered into an agreement to sell its Inga/Fireweed/Stoddart assets ("Inga Assets") for cash consideration of $510.0 million. The disposition (hereinafter referenced as the "Inga Assets Disposition") has an effective date of July 1, 2020 and is expected to close on or around August 21, 2020. The purchaser is also assuming $42.5 million in abandonment liabilities, $1.2 million in lease obligations and financing obligations with a fair value of $41.0 million which are recorded on the Company's balance sheet at $29.0 million based on the discounted value of the future financing payments. Following the expected closing of the Inga Assets Disposition, Kelt will be in a strong financial position with no net bank debt and will continue to hold a large Montney land acreage position in both British Columbia ("BC") and Alberta.

PRODUCTION

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Average daily production:						
Oil (bbls/d)	**8,824**	9,727	-9	**9,254**	8,772	5
NGLs (bbls/d)	**5,066**	4,679	8	**4,825**	4,293	12
Gas (mcf/d)	**98,853**	95,450	4	**99,045**	93,779	6
Combined (BOE/d)	**30,366**	30,314	-	**30,587**	28,695	7
Oil and NGLs weighting	**46%**	48%	-4	**46%**	46%	-

Average production for the three months ended June 30, 2020 remained consistent as compared to the same period in 2019 and the first quarter of 2020. Kelt's average production reported for the first six months of 2020 of 30,587 BOE per day is 7% higher than the comparative period in 2019.

Due to rapid decrease in benchmark crude oil prices as a result of the COVID-19 pandemic the company has deferred the completion of five wells drilled at Fireweed and four wells drilled at Oak/Flatrock. Throughout the second quarter of 2020, Kelt periodically shut in production volumes to reduce its exposure to low oil prices, particularly in April and May 2020.

Oil and NGLs weighting of total production decreased in the second quarter of 2020 to 46% compared to 48% in the comparable period of 2019 and remained consistent at 46% compared to the first quarter of 2020.

REVENUE

All references to revenue in this discussion are before royalties.

(CA$ thousands, except as otherwise indicated)	Three months ended June 30			Six months ended June 30		
	2020	2019	%	**2020**	2019	%
Revenue, before royalties and financial instruments:						
Oil	**21,166**	63,518	-67	**61,264**	109,617	-44
NGLs	**4,857**	8,635	-44	**10,848**	17,489	-38
Gas	**18,749**	22,724	-17	**40,365**	62,193	-35
Revenue, before marketing	**44,772**	94,877	-53	**112,477**	189,299	-41
Marketing revenue (2)	**682**	5,857	-88	**3,895**	14,020	-72
Total revenue (1)	**45,454**	100,734	-55	**116,372**	203,319	-43
Cost of purchases (3)	**(1,099)**	(4,312)	-75	**(4,616)**	(7,920)	-42
Kelt Revenue (4)	**44,355**	96,422	-54	**111,756**	195,399	-43
Average realized prices (5)						
Oil ($/bbl)	**26.37**	72.17	-63	**36.43**	69.95	-48
NGLs ($/bbl)	**10.53**	20.28	-48	**12.35**	22.51	-45
Gas ($/mcf)	**2.04**	2.75	-26	**2.20**	3.95	-44
Combined ($/BOE)	**16.05**	34.96	-54	**20.07**	37.62	-47

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

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

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

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

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

Revenue before marketing for the second quarter of 2020 was $44.8 million, down 53% from $94.9 million from the second quarter of 2019. Revenue before marketing for the six months ending June 30, 2020 was $112.5 million, down 41% from the comparable period in 2019. The decrease in revenue is primarily by lower combined average realized price, which decreased 54% to $16.05 per BOE compared to $34.96 per BOE in the second quarter in the prior year. For the six months ended June 30, 2020, the decrease in revenue is partially offset by a 7% increase in production compared to the same period in 2019.

OIL REVENUE

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Oil production (average bbls per day)	**8,824**	9,727	-9	**9,254**	8,772	5
Oil revenue, before marketing	**21,166**	63,518	-67	**61,264**	109,617	-44
Marketing revenue, net of cost of purchases (1)	**9**	360	-98	**69**	1,448	-95
Kelt Revenue – Oil	**21,175**	63,878	-67	**61,333**	111,065	-45
Average realized oil prices ($/bbl) (2)(3)						
Before financial instruments	**26.37**	72.17	-63	**36.43**	69.95	-48
Realized gain (loss) on financial instruments	**13.96**	-	-	**11.11**	-	-
After financial instruments	**40.33**	72.17	-44	**47.54**	69.95	-32
Average realized price, percentage of MSW (7)	**88%**	98%		**90%**	100%	
Benchmark oil prices:						
WTI Cushing Oklahoma (US$/bbl) (5)	**27.81**	59.78	-53	**36.81**	57.31	-36
WTI Cushing Oklahoma (CA$/bbl) (5)	**38.36**	79.98	-52	**49.74**	76.43	-35
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) (4)	**29.85**	73.84	-60	**40.64**	70.18	-42
MSW % of CA$WTI	**78%**	92%	-15	**82%**	92%	-11
Average exchange rate (CA$/US$) (6)	**1.3859**	1.3375	4	**1.3651**	1.3333	2

(1) Marketing revenue, net of costs of purchases, relates to the purchase and resale of third-party volumes used in the Company's oil blending operations.

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

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

(4) Source: Tidal Energy Marketing.

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

(6) Source: Bank of Canada.

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

Kelt realized an average oil price before financial instruments of $26.37 per barrel during the three months ended June 30, 2020, down 63% from $72.17 per barrel during the comparative period of 2019. Kelt realized an average oil price before financial instruments of $36.43 per barrel during the six months ended June 30, 2020, down from $69.95 per barrel during the comparative period of 2019. The reduction in global crude oil demand as a result of the COVID-19 pandemic resulted in a collapse in crude oil prices starting in March and bottoming out in April. However crude oil production curtailments both by OPEC and non-OPEC members, combined with oil demand returning as countries started the process to re-open their economies in the second quarter, resulted in benchmark WTI prices rebounding to an average of USD$38.31 per barrel in June 2020 versus an average of USD$27.81 per barrel for the second quarter of 2020.

The decrease in Kelt's crude oil revenues was also affected by a 9% decrease in crude oil production in the three months ending June 30, 2020 compared to the second quarter of 2019. The decrease in Kelt's crude oil revenues for the six months ending June 30, 2020 was partially offset by a 5% increase in crude oil production compared to the comparable period in 2019.

The average discount on Kelt's realized oil price before financial instruments relative to the MSW reference price was $3.48 per barrel (88% of MSW) during the second quarter of 2020 compared to an average discount of $1.67 per barrel (98% of MSW) during the second quarter of 2019. The average discount on Kelt's realized oil price before financial instruments relative to the MSW reference price was $4.21 per barrel (90% of MSW) during the six months ending June 30, 2020 compared to an average discount of $0.23 per barrel (98% of MSW) during the comparable period of 2019.

NGL REVENUE

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
NGLs production (average bbls per day)	**5,066**	4,679	8	**4,825**	4,293	12
NGLs barrels per mmcf of natural gas sales	**51**	49	4	**49**	46	7
NGLs revenue	**4,857**	8,635	-44	**10,848**	17,489	-38
Average realized NGLs prices ($/bbl)						
Before financial instruments	**10.53**	20.28	-48	**12.35**	22.51	-45
Realized gain (loss) on financial instruments	**(0.05)**	-	-	**(0.03)**	-	-
After financial instruments	**10.48**	20.28	-48	**12.32**	22.51	-45
Average realized price, percentage of CA$WTI [1]	**27%**	25%		**25%**	29%	
Benchmark NGLs prices [2] ($/bbl):						
Edmonton Pentane	**31.57**	73.73	-57	**45.91**	71.18	-36
% of CA$WTI	**82%**	92%	-11	**92%**	93%	-1
Edmonton Butane	**14.37**	24.43	-41	**24.51**	15.17	62
% of CA$WTI	**37%**	31%	19	**49%**	20%	145
Edmonton Propane	**20.57**	12.31	67	**17.41**	14.35	21
% of CA$WTI	**54%**	15%	260	**35%**	19%	84
Edmonton Ethane	**5.56**	5.73	-3	**5.59**	7.81	-28
% of CA$WTI	**14%**	7%	100	**11%**	10%	10

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

(2) Source: Sproule Associates Limited.

Kelt's NGLs revenue decreased by 44% in the second quarter of 2020 and decreased 38% in the six months ending June 30, 2020 compared to the same periods in 2019. The decrease in revenues resulted from a decrease in benchmark WTI and NGLs prices, partially offset by an increase in production.

The Company's NGLs production increased by 8% in the second quarter of 2020, and 12% in the six months ending June 30, 2020 as compared to the same periods in 2019. The increase in production in 2020 was driven by strong results from the Company's 2019 drilling program in its oil and condensate rich Montney acreage.

Kelt realized an average price before financial instruments for its NGL sales of $10.53 per barrel (27% of CA$WTI) during the second quarter of 2020, down 48% from $20.28 per barrel (25% of CA$WTI) during the second quarter of 2019. Kelt realized an average price before financial instruments for its NGL sales of $12.35 per barrel (25% of CA$WTI) during the six months ending June 30 2020, down from $22.51 per barrel (29% of CA$WTI) during the comparable period in 2019. The decrease in NGLs prices in 2020 was driven by a decrease in benchmark WTI prices as a result of a global demand contraction due to the COVID-19 pandemic.

GAS REVENUE

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Gas production (MCF per day)	**98,853**	95,450	4	**99,045**	93,779	6
Gas revenue, before marketing	**18,749**	22,724	-17	**40,365**	62,193	-35
Marketing revenue, net of cost of purchases (10)	**(426)**	1,185	-136	**(790)**	4,652	-117
Kelt Gas revenue	**18,323**	23,909	-23	**39,575**	66,845	-41
Average realized gas price ($/MCF)						
Before financial instruments	**2.04**	2.75	-26	**2.20**	3.95	-44
Realized gain (loss) on financial instruments	**0.18**	0.02	800	**0.08**	(0.04)	-300
After financial instruments	**2.22**	2.77	-20	**2.28**	3.91	-42
Kelt average premium to AECO 5A (1)	**3%**	167%		**9%**	116%	
Benchmark gas prices:						
NYMEX Henry Hub (US$/MMBtu) (2)	**1.73**	2.62	-34	**1.85**	2.87	-36
Average exchange rate (CA$/US$) (3)	**1.3859**	1.3375	4	**1.3651**	1.3333	2
NYMEX Henry Hub (CA$/MMBtu) (2)	**2.39**	3.50	-32	**2.53**	3.83	-34
AECO 5A (CA$/MMBtu) (4)	**1.99**	1.03	93	**2.01**	1.83	10
Chicago-City Gate (CA$/MMBtu) (5)	**2.25**	3.09	-27	**2.30**	3.59	-36
Dawn (CA$/MMBtu) (6)	**2.26**	3.14	-28	**2.31**	3.50	-34
Malin (CA$/MMBtu) (7)	**2.11**	2.91	-27	**2.57**	4.03	-36
Sumas (CA$/MMBtu) (8)	**2.07**	2.81	-26	**2.64**	5.94	-56
Station 2 (CA$/MMBtu) (9)	**1.97**	0.60	228	**1.98**	0.95	108

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

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

(3) Source: Bank of Canada.

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

(5) Source: Tidal Natural Gas Monthly Market Update (US$/MMBtu). The Canadian dollar equivalent Chicago-City Gate price is calculated based on the monthly average US$ price and the monthly average CA$/US$ exchange rate (3).

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

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

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

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

(10) Marketing revenue, net of cost of purchases, relates to the purchase and resale of third-party volumes.

Natural gas revenue before marketing decreased 17% to $18.7 million in the second quarter of 2020 and decreased 35% to $40.4 million for the six months ending June 30, 2020 as compared to the same periods in 2019. In 2020 the AECO 5A gas reference price averaged $1.99 per MMBtu for the second quarter of 2020 and $2.01 per MMBtu for the six months ending June 30, 2020, compared to Kelt's realized price of $2.04 per MMBtu and $2.20 per MMBtu, respectively.

Historically Kelt's natural gas sales price has been at a premium to the AECO 5A benchmark price primarily due to its gas marketing arrangements, which exposes Kelt to markets outside of BC and Alberta, and its high heat content. In the first half of 2020, the spread between Canadian natural gas prices at AECO 5A and Station 2 compared to the US natural gas markets narrowed significantly. In 2020, Kelt's natural gas sold at U.S. indices comprised of approximately 60 percent of natural gas sales compared to approximately 95 percent in the first half of 2019. Although the average premium Kelt has received to AECO 5A has decreased in 2020 compared to 2019, Kelt has obtained a benefit in higher adjusted funds from operations due to reduced natural gas transportation costs as the Company focuses its sales more on the Canadian market.

Overall U.S. indices experienced a decline in prices in 2020, primarily as a result of a warm winter resulting in higher than normal storage levels starting in the first quarter of 2020. These high storage levels continued into the second quarter as North American commercial demand declined due to the COVID-19 pandemic. This resulted in an approximate 30% decrease in most of the US natural gas indices for both the three months and six months ending June 30, 2020.

ROYALTIES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Royalties	**2,313**	6,203	-63	**5,183**	11,110	-53
Average royalty rate (1)	**5.2%**	6.5%	-20	**4.6%**	5.9%	-22
$ per BOE	**0.84**	2.25	-63	**0.93**	2.14	-57

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

Kelt's average royalty rate was 5.2% during the second quarter of 2020, compared to 6.5% during the second quarter of 2019 and 4.6% for the six months ending June 30, 2020 versus 5.9% in the same period in 2019. The primary reason for the decrease in the average royalty rate in 2020 was due to a $1.1 million royalty credit from the BC Infrastructure Royalty Credit Program. The credit is applied against royalties as they are incurred, resulting in a lower average royalty rate when compared to the same period in 2019.

Alberta oil royalties are calculated based on crown par reference prices, which are on a one to two month lag against benchmark commodity prices. The steep drop in Canadian benchmark crude oil prices in 2020 resulted in a drop in royalty expense in 2020 as compared to 2019.

PRODUCTION EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Production expense	**26,596**	24,095	10	**57,000**	48,793	17
$ per BOE	**9.62**	8.73	10	**10.24**	9.39	9

The Company incurred total production expenses of $26.6 million during the second quarter of 2020, up 10% from the comparative quarter. Production expenses averaged $9.62 per BOE during the second quarter of 2020, compared to $8.73 per BOE in the same period in 2019.

The Company incurred total production expenses of $57.0 million during the first six months of 2020, up 17% from $48.8 million during the six months ending June 30, 2019. Production expenses averaged $10.24 per BOE during the six months ending June 30, 2020, up from $9.39 per BOE for the six months ending June 30, 2019. On a per BOE basis, for the three and six months ending June 30, 2020, operating expenses increased by 10% and 17%, respectively, primarily due to an increase in gas processing and utility costs.

TRANSPORTATION EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Transportation expense (1)	**10,091**	15,259	-34	**19,895**	26,878	-26
$ per BOE	**3.65**	5.53	-34	**3.57**	5.17	-31

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

Transportation expenses averaged $3.65 per BOE during the second quarter of 2020, a decrease of 34% from $5.53 per BOE in the second quarter of 2019 and averaged $3.57 per BOE in the six months ending June 30, 2020, a decrease of 31% from $5.17 per BOE in the same period in 2019. The decrease is due to Kelt choosing not to renew a large portion of its firm deliveries to Chicago due to the relative strength of benchmark pricing at the Station 2 and AECO 5A markets.

FINANCING EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Interest on bank debt	**2,183**	2,272	-4	**5,365**	4,106	31
Fees on bank debt	**460**	239	92	**626**	403	55
Interest on convertible debentures	**1,108**	1,121	-1	**2,229**	2,229	-
Interest on finance lease	**39**	59	-34	**95**	100	-5
Interest on financing liability	**753**	35	2051	**787**	35	2149
Total interest expense	**4,543**	3,726	22	**9,102**	6,873	32
Accretion of convertible debentures	**1,224**	1,086	13	**2,392**	2,122	13
Accretion of decommissioning obligations	**524**	759	-31	**1,217**	1,543	-21
Total financing expense	**6,291**	5,571	13	**12,711**	10,538	21
Interest expense per BOE (1)	**1.64**	1.35	21	**1.64**	1.32	24
Average principal amount outstanding during period:						
Bank debt	**320,231**	231,105	39	**312,766**	207,749	51
Convertible debentures	**89,910**	89,910	-	**89,910**	89,910	-
Average total principal amount of debt outstanding	**410,141**	321,015	28	**402,676**	297,659	35
Average interest rates:						
Bank debt (2)	**2.7**	3.9	-31	**3.4**	4.0	-15
Convertible debentures	**5.0**	5.0	-	**5.0**	5.0	-

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

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

The Company's average bank debt outstanding increased in the first half of 2020 resulting in an increase in total interest expense from the prior year.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Salaries and benefits	**1,574**	2,464	-36	**3,488**	5,298	-34
Other G&A expenses	**1,066**	1,397	-24	**2,852**	2,875	-1
Gross G&A expenses	**2,640**	3,861	-32	**6,340**	8,173	-22
Overhead recoveries	**(827)**	(1,768)	-53	**(2,715)**	(3,507)	-23
G&A expense, net of recoveries	**1,813**	2,093	-13	**3,625**	4,666	-22
Gross G&A ($ per BOE)	**0.96**	1.40	-31	**1.14**	1.57	-27
Net G&A ($ per BOE)	**0.66**	0.76	-13	**0.65**	0.90	-28

Kelt continues to incur below industry average G&A expenses as a result of management's continued efforts to maintain a low cost structure. G&A expense, net of recoveries, averaged $0.66 per BOE during the second quarter of 2020, a decrease of 13% compared to $0.76 per BOE during the second quarter of 2019. The decrease in gross G&A expenses during the second quarter of 2020 compared to the second quarter of 2019 is primarily driven by a decrease in employee compensation and recoveries related to the federal government's Canada Emergency Wage Subsidy program. On a BOE basis, the decrease is a combination of a decrease in G&A expense, net of recoveries and an increase in production for the six months ended June 30, 2020.

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

SHARE BASED COMPENSATION ("SBC")

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Stock options	**985**	1,087	-9	**1,827**	2,203	-17
Restricted share units ("RSUs")	**589**	711	-17	**1,256**	1,473	-15
Total SBC expense	**1,574**	1,798	-12	**3,083**	3,676	-16
$ per BOE	**0.57**	0.65	-12	**0.55**	0.71	-23

The decrease in SBC expense during the three and six months ended June 30, 2020 compared to the same quarter in 2019 is primarily due to fewer restricted shares units issued in recent periods and the lower Black-Scholes value associated with recent option grants.

As at June 30, 2020, stock options and RSUs outstanding represent 7.1% of total shares outstanding (December 31, 2019 – 5.8%).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Expired mineral leases	**623**	300	108	**943**	573	65
$ per BOE	**0.23**	0.11	109	**0.17**	0.11	55

The Company expensed $0.6 million of costs related to the expiry of non-core land holdings during the second quarter of 2020, and $0.9 million during the six months ending June 30, 2020 compared to lease expiries of $0.3 million expensed in second quarter of 2019 and $0.6 million for the six months ending June 30, 2019. The lease expiries relate to non-core land holdings as the Company continues to focus on the development of its core areas.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Depletion and depreciation	**36,529**	41,026	-11	**75,485**	74,942	1
Impairment	**259,400**	-	-	**336,500**	-	-
Total depletion, depreciation and impairment	**295,929**	41,026	621	**411,985**	74,942	450
Depletion and depreciation ($/BOE)	**13.22**	14.87	-11	**13.56**	14.43	-6
Impairment ($/BOE)	**93.87**	-	-	**60.45**	-	-

The Company calculates depletion of development and production ("D&P") assets based on production relative to total proved reserves for each depletion unit. Depletion and depreciation expense of $36.5 million for the quarter ended June 30, 2020 decreased by 11% from $41.0 million in the comparable period in 2019. The decrease was primarily attributed to a $77.1 million impairment of the Company's Alberta CGU taken in the first quarter of 2020 and lower production in the second quarter of 2020 which was offset by an increase in proved reserves at December 31, 2019.

Subsequent to June 30, 2020, the Company entered into a purchase and sale agreement for the Company's Inga Assets for $510.0 million cash, plus the assumption of certain liabilities, before closing adjustments. Based on the purchase and sale agreement, the carrying value of the BC CGU was in excess of the recoverable amount resulting in an impairment loss of $202.6 million (after-tax) as at June 30, 2020. Notwithstanding the impairment in the BC CGU, there is no indication of impairment for the Company's Alberta CGU as at June 30, 2020.

Depletion and depreciation of $75.5 million for the six months ended June 30, 2020 remained relatively consistent to comparable period in 2019.

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Gain (loss) on sale of assets	**-**	3,525	-100	**1,703**	4,900	-65

During the six months ended June 30, 2020 the Company completed minor dispositions of non-core properties with a net book value of $0.4 million. Consideration received was measured at fair value, for a total of $2.1 million, resulting in a gain on sale of $1.7 million.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Realized gain (loss)	**12,765**	145	8703	**20,067**	(667)	-3109
Unrealized loss	**(25,691)**	(501)	5028	**(4,044)**	(3,130)	29
Loss on derivative financial instruments	**(12,926)**	(356)	3531	**16,023**	(3,797)	-522
$ per BOE	**(4.68)**	(0.13)	3525	**2.87**	(0.73)	-493

Commodity price risk

Commodity price risk is the price uncertainty to the Company's financial performance upon fluctuations in the prices of commodities that are out of the control of the Company. Commodity prices are primarily driven by market forces that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and U.S. dollar.

As at August 6, 2020, the following commodity price risk management contracts outstanding:

Contract Type(1)(2)(3)	Notional Volume	Contract Price	Term
Crude oil derivative contracts			
MSW fixed price swap	3,000 bbl/d	CAD$31.36/bbl	July - Dec 2020
NGL derivative contracts			
OPIS-Conway propane fixed price swap	500 bbl/d	CAD$23.35/bbl	Apr 2020 – Dec 2020
Natural gas derivative contracts			
NYMEX fixed price swap	45,000 MMBtu/d	CAD$2.83/MMBtu	Apr - Nov 2020
NYMEX to AECO 5A differential	25,000 MMBtu/d	NYMEX less USD$0.4675/MMBtu	Jun - Oct 2020

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

Interest rate risk

The Company is exposed to interest rate risk as changes in market interest rates will impact the Company's credit facility which is subject to a floating interest rate. Based on average bank debt outstanding of $312.8 million during the first half of 2020, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.8 million.

As at August 6, 2020, the following interest rate risk management contracts are outstanding:

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

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

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate as benchmark oil and natural gas prices are denominated in U.S. dollars and the Company has both sales and transportation contracts in U.S. dollars.

As at August 6, 2020, the following foreign exchange risk management contracts are outstanding:

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

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

PREMIUM ON FLOW-THROUGH SHARES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Premium on flow-through shares	**-**	-	-	**1,346**	-	-

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

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities ("FTS") to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of June 30, 2020, all eligible expenditures have been incurred for the Company's flow through shares issued in 2019.

INCOME TAXES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Deferred income tax expense (recovery)	**(61,192)**	548	-11266	**(56,428)**	4,135	-1465
Profit (loss) before taxes	**(313,853)**	3,288	-9645	**(383,174)**	16,244	-2459
Effective tax recovery rate	**19.5%**	16.7%	17	**14.7%**	25.5%	-42

Kelt's consolidated combined federal and provincial statutory tax rate averaged 26.0% and 27.0% during the three months ended June 30, 2020 and 2019, respectively. Kelt's effective tax rate in the second quarter of 2020 was higher than the statutory rate due to the impairment taken in 2020. Kelt does not recognized any deferred tax assets due to uncertainty regarding future taxable income.

Kelt was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. The Company's consolidated tax pools are estimated to be approximately $1,246.6 million as of June 30, 2020 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**June 30 2020**	December 31 2019	% change
Canadian oil and gas property expenses (COGPE)	10-15%	**110,590**	115,792	-4
Canadian development expenses (CDE)	30-45%	**243,385**	254,985	-5
Canadian exploration expenses (CEE)	100%	**111,015**	109,508	1
Undepreciated capital cost (1) (UCC)	25-37.5%	**294,420**	264,870	11
Share and debt issue costs (SIC/DIC)	5 years	**1,200**	1,805	-34
Non-capital losses (2) (NCL)	100%	**486,023**	437,754	11
Estimated tax deductions available, end of period		**1,246,633**	1,184,714	5

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

(2) The Company's non-capital losses expire in years 2023 to 2039.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income and adjusted funds from operations generated during the three and six month periods ended June 30, 2020 and 2019, respectively.

THREE MONTHS ENDED JUNE 30TH	**2020**		2019		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**45,454**	**16.45**	100,734	36.52	-55	-55
Cost of purchases	**(1,099)**	**(0.40)**	(4,312)	(1.56)	-75	-74
Realized gain on financial instruments (1)	**12,765**	**4.62**	145	0.05	8703	9140
Royalties	**(2,313)**	**(0.84)**	(6,203)	(2.25)	-63	-63
Revenue, after royalties and financial instruments	**54,807**	**19.83**	90,364	32.76	-39	-39
Production expense	**(26,596)**	**(9.62)**	(24,095)	(8.73)	10	10
Transportation expense	**(10,091)**	**(3.65)**	(15,259)	(5.53)	-34	-34
Operating income/netback (2)	**18,120**	**6.56**	51,010	18.50	-64	-65
Financing expense (3)	**(4,543)**	**(1.64)**	(3,726)	(1.35)	22	21
G&A expense	**(1,813)**	**(0.66)**	(2,093)	(0.76)	-13	-13
Other income	**83**	**0.03**	-	-	-	-
Realized gain (loss) on foreign exchange	**(135)**	**(0.05)**	43	0.01	-141	-600
Adjusted funds from operations (2)	**11,712**	**4.24**	45,234	16.40	-74	-74
Basic ($ per common share) (4)	**0.06**		0.25		-76	
Diluted ($ per common share) (4)	**0.06**		0.25		-76	
Common shares outstanding (000s):						
Basic, weighted average	**187,794**		184,151		2	
Diluted, weighted average	**187,848**		184,532		2	

SIX MONTHS ENDED JUNE 30TH	**2020**		2019		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**116,372**	**20.90**	203,319	39.14	-43	-47
Cost of purchases	**(4,616)**	**(0.83)**	(7,920)	(1.52)	-42	-45
Realized gain (loss) on financial instruments (1)	**20,067**	**3.60**	(667)	(0.13)	-3109	-2869
Royalties	**(5,183)**	**(0.93)**	(11,110)	(2.14)	-53	-57
Revenue, after royalties and financial instruments	**126,640**	**22.74**	183,622	35.35	-31	-36
Production expense	**(57,000)**	**(10.24)**	(48,793)	(9.39)	17	9
Transportation expense	**(19,895)**	**(3.57)**	(26,878)	(5.17)	-26	-31
Operating income/netback (2)	**49,745**	**8.93**	107,951	20.79	-54	-57
Financing expense (3)	**(9,102)**	**(1.64)**	(6,873)	(1.32)	32	24
G&A expense	**(3,625)**	**(0.65)**	(4,666)	(0.90)	-22	-28
Other income	**639**	**0.11**	495	0.10	29	10
Cash premium on financial instruments	**1,230**	**0.22**	-	-	-	-
Realized gain (loss) on foreign exchange	**185**	**0.03**	(214)	(0.05)	-186	-160
Adjusted funds from operations (2)	**39,072**	**7.00**	96,693	18.62	-60	-62
Basic ($ per common share) (4)	**0.21**		0.53		-60	
Diluted ($ per common share) (4)	**0.21**		0.52		-60	
Common shares outstanding (000s):						
Basic, weighted average	**187,845**		184,085		2	
Diluted, weighted average	**188,630**		184,513		2	

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

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

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

(4) Adjusted funds from operations (2) per common share is calculated on a consistent basis with profit (loss) per common share, using basic and diluted weighted average common shares as determined in accordance with GAAP.

During the three months ended June 30, 2020, adjusted funds from operations of $11.7 million ($0.06 per share, diluted) decreased by 74% from $45.2 million ($0.25 per share, diluted) during the second quarter ended June 30, 2019. The decrease in adjusted funds from operations is primarily attributed a decrease in operating income and an increase in financing expense as a result of the average debt outstanding increasing by 39% during the second quarter ended June 30, 2020 compared to the same quarter in the prior year.

During the six months ended June 30, 2020, adjusted funds from operations of $39.1 million ($0.21 per share, diluted) decreased by 60% from $96.7 million ($0.52 per share, diluted) during the six months ended June 30, 2019. The decrease in adjusted funds from operations is primarily attributed to the decrease in Kelt's operating income which was down 54% to $49.7 million compared to $108.0 million in the six months ending June 30, 2019. The decrease is driven by a 35% decrease in the benchmark WTI (CA$/bbl) oil price, partially offset by a 7% increase average production.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Profit (loss) and comprehensive income (loss)	**(252,661)**	2,740	-9321	**(326,746)**	12,109	-2798
$ per common share, basic	**(1.35)**	0.01	-13600	**(1.74)**	0.07	-2586
$ per common share, diluted (1)(2)	**(1.35)**	0.01	-13600	**(1.74)**	0.07	-2586
$ per BOE	**(91,43)**	1.01	-9152	**(58.70)**	2.32	-2630
Wtd avg. shares outstanding, basic (000s)	**187,794**	184,151	2	**187,845**	184,085	2
Wtd avg. shares outstanding, diluted (000s) (1)(2)	**187,848**	184,532	2	**188,630**	184,513	2

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit or loss per common share. For the three and six months ended June 30, 2020, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible.

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

Kelt reported a loss of $252.7 million ($1.35 per common share, diluted) for the three months ended June 30, 2020, compared to a profit of $2.7 million ($0.01 per common share, diluted) in the same three month period of 2019. The decrease to profit is primarily due to a $33.7 million decrease in adjusted funds from operations and an impairment of $259.4 million.

Kelt reported a loss of $326.7 million ($1.74 per common share, diluted) for the six months ended June 30, 2020, compared to a profit of $12.1 million ($0.07 per common share, diluted) in the same period of 2019. The decrease in profit is primarily due to a $57.8 million decrease in adjusted funds from operations and an impairment of $336.5 million.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

Drilling and completion expenditures for the three month period ended June 30, 2020 were deferred as a result of ongoing uncertainties in market conditions and commodity prices. For the six months ended June 30, 2020 drilling and completion costs of $51.5 million included the drilling of 9.0 net wells and the completion of 7.0 net wells.

Kelt's facility, pipeline and well equipment spending for the three months ending June 30, 2020 of $27.6 million and related primarily to the completion of pipeline and facility projects that commenced prior to March 31, 2020. For the six months ended June 30, 2020 facility, pipeline and well equipment spending totaled $67.2 million and included the addition of a refrigeration and dehydration at the Company's Inga 2-10 gas plant and pipeline projects in both Inga and Wembley.

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

(CA$ thousands, except as otherwise indicated)	Three months ended June 30 2020	2019	%	Six months ended June 30 2020	2019	%
Capital expenditures:						
Lease acquisition and retention	**321**	453	-29	**725**	793	-9
Geological and geophysical	**(26)**	964	-103	**1,507**	1,101	37
Drilling and completion of wells	**(184)**	57,055	-100	**51,524**	124,466	-59
Facilities, pipeline and well equipment	**27,597**	36,115	-24	**67,173**	73,040	-8
Corporate assets	**60**	87	-31	**68**	200	-66
Capital expenditures, before A&D	**27,768**	94,674	-71	**120,997**	199,600	-39
Property acquisitions	**-**	1,000	-100	**16**	5,408	-100
Property dispositions	**-**	(4,652)	-100	**(2,119)**	(6,024)	-65
Total capital expenditures, net of dispositions	**27,768**	91,022	-69	**118,894**	198,984	-40

DRILLING

Net wells	Three months ended June 30 2020	2019	%	Six months ended June 30 2020	2019	%
Drilling	**-**	14.0	-	**9.0**	24.0	-63
Completion	**-**	10.0	-	**7.0**	25.0	-72

CAPITAL RESOURCES AND LIQUIDITY

LIQUIDITY

Kelt's capital management objective is to maintain a flexible capital structure and sufficient liquidity to allow the Company to execute on its capital investment program. The Company manages its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As at June 30, 2020, Kelt's capital structure was comprised of shareholders' capital, convertible debentures, bank debt and working capital.

As a result of the COVID-19 pandemic (as described in note 2 of the interim financial statements), global economic markets and crude oil demand have been negatively affected. The length and severity of the impacts of COVID-19 on crude oil demand and pricing is uncertain. However, management believes that the long-term viability of the oil and gas industry remains intact and commodity prices will begin to improve once COVID-19 related restrictions on the worldwide economy dissipates. The information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to be fluid.

On July 22, 2020 Kelt announced it has entered into an agreement to sell its Inga Assets for cash consideration of $510.0 million. The purchaser is also assuming $42.5 million in abandonment liabilities, $1.2 million in lease obligations and financing obligations with a fair value of $41.0 million which are recorded on the Company's balance sheet at $29.0 million based on the discounted value of the future financing payments. Following the completion of the sale of these assets, Kelt expects to repay its outstanding bank debt, redeem its outstanding convertible debentures, and remain with a positive working capital. The sale of the Inga Assets is expected to close in August 2020 and the assets and liabilities associated with the Inga Assets are presented as assets held for sale on the June 30, 2020 balance sheet.

The Company has deferred the borrowing base redetermination with its banking syndicate pending the sale of the Inga Assets. Upon closing, Kelt expects to repay its outstanding bank debt. If the sale of the Inga Assets does not close, the Company is uncertain as to the term and amounts of the Credit Facility following the scheduled bank review on August 31, 2020. Based on current commodity prices, a borrowing base redetermination is likely to result in a decrease to the amount available under the Credit Facility. At June 30, 2020 the Company had limited liquidity remaining under the Credit Facility and a reduction in the amount of the facility would require additional debt or equity financing or asset sales.

	June 30, 2020	December 31, 2019
Bank debt	**320,300**	300,000
Working capital deficiency (1)	**62,900**	28,080
Net bank debt (2)	**383,200**	328,080
Annualized quarterly adjusted funds from operations (2)(3)	**46,848**	186,620
Net bank debt to annualized quarterly adjusted funds from operations ratio (2)	**8.2**	1.8

(1) Working capital deficiency does not include assets held for sale, liabilities held for sale, and convertible debentures.

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

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

Pro forma of financial liabilities post Inga Asset Disposition	
Net bank debt (1)	**383,200**
Convertible debentures	**85,181**
Financial liabilities as at June 30, 2020 (1)	**468,381**
Estimated cash proceeds on Inga Asset sale	**(510,000)**
Working capital surplus, pro forma Inga Asset Disposition (1)	**(41,619)**

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

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. Historically, Kelt has targeted a net bank debt to annualized quarterly adjusted funds from operations ratio of less than 2.0 times. For the six months ended June 30, 2020, the Company's capital expenditures net of A&D of $118.9 million were in excess of the Company's adjusted funds from operations of $39.1 million and its Q1 2020 pipeline financing of $28.7 million. Funds flow from operations for the six months ended June 30, 2020 was negatively impacted by lower commodity prices related to demand loss from the COVID-19 pandemic. As a result, Kelt's net bank debt increased to $383.2 million at June 30, 2020 from $328.1 million at December 31, 2019. Subsequent to June 30, 2020, the Company entered into a purchase and sale agreement to sell its Inga Assets for $510.0 million. The purchaser is also assuming $42.5 million in abandonment liabilities, $1.2 million in lease obligations and financing obligations with a fair value of $41.0 million which are recorded on the Company's balance sheet at $29.0 million based on the discounted value of the future financing payments. The sale of the Inga Assets is expected to close in August 2020 and the related assets and liabilities are presented as assets held for sale at June 30, 2020. The Company expects to have positive net bank debt following the close of the sale of the Inga Assets.

CREDIT FACILITY

The Company has a $350.0 million revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. As at June 30, 2020, $320.3 million is drawn under the Credit Facility. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

On June 2, 2020 Kelt obtained approval from its lenders to extend the revolving period under its credit facility agreement to July 15, 2020 and on July 14, 2020 Kelt obtained approval to extend the revolving period to August 31, 2020. Kelt intends to repay its outstanding bank debt following the closing of the sale of the Inga Assets.

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

CONVERTIBLE DEBENTURES

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at June 30, 2020. The Debentures may be redeemed by the Company at a redemption price equal to their principal amount plus accrued and unpaid interest. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price").

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

The Debentures trade on the TSX under the symbol "KEL.DB".

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at June 30, 2020 there were 187.9 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 second quarter of 2020, 83.3 million common shares traded on the TSX at a weighted average price of $1.38 per common share, down from the volume weighted average trading price of $4.25 per common share during the year ended December 31, 2019.

As at June 30, 2020, officers, directors, and employees have been granted options to purchase 12.6 million common shares of the Company at an average exercise price of $3.93 per common share. In addition, there are 0.7 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 14 of the interim financial statements.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

As of June 30, 2020, the Company is committed to future payments under the following agreements:

	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	4,260	10,645	10,653	10,662	10,701	38,002
Firm transportation commitments (1)	13,123	19,032	17,245	13,272	11,743	27,322
	17,383	29,677	27,898	23,934	22,444	65,324
Commitments relating to AHFS (2)						
Firm processing commitments	3,640	8,405	13,163	13,164	10,980	57,480
Firm transportation commitments	3,782	9,509	9,367	8,655	8,655	131,273
Total commitments relating to AHFS	7,422	17,914	22,530	21,819	19,635	188,753
Total commitments	**24,805**	**47,591**	**50,428**	**45,753**	**42,079**	**254,077**

(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 June 30, 2020 of CA$/US$1.3628.

(2) Subsequent to June 30, 2020, a portion of Kelt's commitments that relate to the Inga Assets Disposition which will be transferred over to the purchaser upon closing of the sale. This includes a take-or-pay firm processing commitment for 75 MMcf/d of raw gas over a 10-year term and firm transportation on the North Montney Mainline over a 20-year term.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended June 30, 2020 and 2019.

SUMMARY OF QUARTERLY RESULTS

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

(CA$ thousands, except as otherwise indicated)	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019
Petroleum and natural gas sales	**45,454**	70,918	97,763	93,274
Cash provided by operating activities	**14,429**	50,172	35,396	14,640
Adjusted funds from operations (1)	**11,712**	27,360	46,655	39,173
Per share – basic ($/common share) (1)	**0.06**	0.15	0.25	0.21
Per share – diluted ($/common share) (1)	**0.06**	0.15	0.25	0.21
Loss and comprehensive loss	**(252,661)**	(74,085)	(2,628)	(2,909)
Per share – basic ($/common share)	**(1.35)**	(0.39)	(0.01)	(0.02)
Per share – diluted ($/common share)	**(1.35)**	(0.39)	(0.01)	(0.02)
Total capital expenditures, net of dispositions	**27,768**	91,126	63,983	52,657
Total assets	**1,295,965**	1,608,870	1,605,465	1,602,566
Net bank debt (1)	**383,200**	344,664	328,080	320,507
Convertible debentures	**85,181**	83,957	82,789	81,630
Shareholders' equity	**599,399**	850,486	923,062	908,190
Average daily production (BOE/d)	**30,366**	30,806	31,262	31,150
Average realized price ($/BOE) (1)(2)	**20.67**	26.65	32.53	30.85
Operating netback ($/BOE) (1)	**6.56**	11.28	18.65	15.68
Operating netback % of average realized price (2)	**32%**	42%	57%	51%

	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Petroleum and natural gas sales	100,734	102,585	100,350	100,219
Cash provided (used in) by operating activities	58,639	53,813	63,656	29,881
Adjusted funds from operations (1)	45,234	51,459	47,140	46,876
Per share – basic ($/common share)	0.25	0.28	0.26	0.25
Per share – diluted ($/common share)	0.25	0.28	0.26	0.25
Profit and comprehensive income	2,740	9,369	2,843	3,246
Per share – basic ($/common share)	0.01	0.05	0.02	0.02
Per share – diluted ($/common share)	0.01	0.05	0.02	0.02
Total capital expenditures, net of dispositions	91,022	107,962	70,332	68,427
Total assets	1,577,824	1,515,227	1,423,521	1,378,114
Net bank debt (1)	308,636	258,351	196,416	176,046
Convertible debentures	80,512	79,426	78,390	77,350
Shareholders' equity	909,373	904,835	893,796	889,275
Average daily production (BOE/d)	30,314	27,057	28,711	26,204
Average realized price ($/BOE) (1)(2)	35.01	40.31	34.71	37.74
Operating netback ($/BOE) (1)	18.50	23.39	19.39	20.93
Operating netback as a % of average realized price (2)	53%	58%	56%	55%

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

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

In the fourth quarter of 2018, prices retracted to a monthly low in December 2018 of US$49.52 per barrel as global trade tensions reduced forecasted oil demand and placed downward pressure on oil prices. In the domestic market, international access constraints due to capacity issues on Canadian pipelines in the fourth quarter of 2018 resulted in a significant widening of price differentials for Canadian crude oil compared to international benchmark prices. This differential narrowed back to historical levels by the end of December as the Government of Alberta announced mandated province wide crude oil curtailments for major Alberta oil producers.

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

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

Crude oil prices appear to have initially bottomed out with negative prices in April 2020. Crude oil production curtailments both by OPEC and non-OPEC members, combined with countries starting the process to re-open their economies in the second quarter, resulted in benchmark WTI prices rebounding to USD$38 per barrel in June. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve, with fears of another wave of new infections impacting the ability of countries to fully re-open their economies.

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

Overall U.S. indices experienced a decline in prices in 2020, primarily as a result of a warm winter resulting in higher than normal storage levels starting in the first quarter of 2020. These high storage levels continued into the second quarter as North American commercial demand collapsed due to the COVID-19 pandemic. The COVID-19 pandemic has also significantly reduced global natural gas demand, and a corresponding decrease in global natural gas benchmark prices. This decrease in global natural gas prices, has reduced the incentive for the US to export natural gas through its LNG facilities, which has further increased the natural gas supplies in North America.

Offsetting the downward pressure in natural gas benchmark prices from lower natural gas demand, was a decrease in North American natural gas supply in 2020 due to a reduction of drilling activity in the North American basins, and as shut-in of associated oil and gas wells occurred.

Forward strip prices at the end of June 2020 forecast a relatively balanced natural gas market heading into the fall of 2020, with the reduction in supply offsetting a reduction in commercial demand as economic activity from the COVID-19 pandemic is significantly reduced.

Refer to the *"Financial and Operating Summary"* section of this MD&A for further discussion. Additional information relating to Kelt, including the Company's MD&A for previous quarters, is filed on SEDAR and can be viewed at www.sedar.com.

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2019 consolidated annual financial statements.

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

Lower commodity prices resulted in a significant decrease in the Company's Petroleum and Natural Gas Sales in the first half of 2020 and reduced the outlook for the remainder of 2020 based on current strip prices for crude oil. The Company's net bank debt as of June 30, 2020 increasing to $383.2 million resulted in an increase to the Company's net bank debt to annualized quarterly adjusted funds from operations ratio of 8.2 times from 1.8 times at December 31, 2019.

On July 22, 2020 Kelt announced it has entered into an agreement to sell its Inga Assets for cash consideration of $510.0 million, which is expected to close on or around August 21, 2020. The Company has deferred the borrowing base redetermination with its banking syndicate pending the sale of the Inga Assets. Upon closing, Kelt expects to repay its outstanding bank debt. If the sale of the Inga Assets does not close, the Company is uncertain as to the term and amounts of the Credit Facility following the scheduled bank review on August 31, 2020.

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 April 1, 2020 to June 30, 2020 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

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

Non-GAAP financial measures

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

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

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Cash provided by operating activities	**14,429**	58,639	-75	**64,601**	112,452	-43
Change in non-cash working capital	**(3,287)**	(14,033)	-77	**(26,203)**	(17,483)	50
Funds from operations	**11,142**	44,606	-75	**38,398**	94,969	-60
Settlement of decommissioning obligations	**570**	628	-9	**674**	1,724	-61
Adjusted funds from operations	**11,712**	45,234	-74	**39,072**	96,693	-60

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

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

"Net bank debt" is equal to "bank debt, net of working capital. Working capital excludes current bank debt, current convertible debentures, and assets and liabilities held for sale. “Net bank debt” is calculated by adding the working capital deficiency to bank debt. “Financial liabilities” is equal to the Company’s net bank debt plus convertible debentures. “Working capital surplus, pro forma Inga Asset Disposition” is Kelt’s estimated current assets, less current liabilities, subsequent to the close of the Inga Asset Disposition. The Company uses a “net bank debt to annualized quarterly adjusted funds from operations ratio” and a as a benchmark on which management monitors the Company’s capital structure and short-term financing requirements. Management believes that this ratio, as well as the Company’s “net bank debt” and “financial liabilities” which are all non-GAAP financial measures, provides investors with information to understand the Company’s liquidity risk. The “net bank debt to annualized quarterly adjusted funds from operations ratio” is also indicative of the “debt to EBITDA” calculation used to determine the applicable margin for a quarter under the Company’s Credit Facility agreement (though the calculation may not always be a precise match, it is representative).

Other KPI

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

BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company’s operations or financial results. A discussion of business risks, as well as economic and industry factors affecting the Company is included in Kelt’s annual MD&A for the year ended December 31, 2019, dated March 9, 2020. Additional information is included in Kelt’s Annual Information Form dated March 6, 2020 which can be found at www.sedar.com

BUSINESS OUTLOOK

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

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.

On July 22, 2020 Kelt announced it has entered into an agreement to sell its Inga Assets for cash consideration of $510.0 million. The purchaser is also assuming $42.5 million in abandonment liabilities, $1.2 million in lease obligations and financing obligations with a fair value of $41.0 million which are recorded on the Company’s balance sheet at $29.0 million based on the discounted value of the future financing payments. The Company estimates its working capital surplus, subsequent to the close of the Inga Assets disposition, to be $41.62 million. The transaction is expected to close in August 2020; however, there can be no assurance as the timing of the closing or whether the transaction will close as expected.

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.

OUTLOOK AND GUIDANCE

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

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

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 6, 2020 is filed on SEDAR and can be viewed on their website at www.sedar.com. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to Kelt is also available on its website at www.keltexploration.com.

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

(CA$ thousands)	[Notes]	**June 30, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**154**	8,365
Accounts receivable and accrued sales	[15]	**33,528**	44,972
Prepaid expenses and deposits		**1,566**	2,226
Derivative financial instruments	[15]	**2,113**	-
Assets held for sale	[5]	**582,811**	-
Total current assets		**620,172**	55,563
Investment in securities	[15]	**5,600**	5,600
Exploration and evaluation assets	[7]	**54,385**	73,891
Property, plant and equipment	[8]	**615,808**	1,470,411
Total assets		**1,295,965**	**1,605,465**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**88,461**	76,072
Derivative financial instruments	[15]	**9,693**	2,305
Deferred premium on flow-through shares		**-**	1,346
Decommissioning obligations	[11]	**1,248**	2,094
Financing liability	[12]	**-**	771
Lease liability	[13]	**859**	1,055
Bank debt	[9]	**320,300**	-
Convertible debentures	[10]	**85,181**	-
Liabilities held for sale	[5]	**72,790**	-
Total current liabilities		**578,532**	83,643
Bank debt	[9]	**-**	300,000
Convertible debentures	[10]	**-**	82,789
Deferred income tax liability		**-**	56,429
Decommissioning obligations	[11]	**116,961**	157,929
Lease liability	[13]	**1,073**	1,613
Total liabilities		**696,566**	682,403
SHAREHOLDERS' EQUITY			
Shareholders' capital	[14]	**1,138,028**	1,137,121
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[10]	**12,843**	12,843
Contributed surplus		**26,915**	24,739
Retained earnings (deficit)		**(520,719)**	(193,973)
Total shareholders' equity		**599,399**	923,062
Total liabilities and shareholders' equity		**1,295,965**	1,605,465
Commitments	[17]		

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

On behalf of the Board of Directors:

[signed] *[signed]*

David J. Wilson, Director Neil G. Sinclair, Director

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

		Three months ended June 30		Six months ended June 30	
(CA$ thousands, except per share amounts)	[Notes]	**2020**	2019	**2020**	2019
Revenue					
Petroleum and natural gas sales	[16]	**45,454**	100,734	**116,372**	203,319
Royalties		**(2,313)**	(6,203)	**(5,183)**	(11,110)
		43,141	94,531	**111,189**	192,209
Expenses					
Production		**26,596**	24,095	**57,000**	48,793
Transportation		**10,091**	15,259	**19,895**	26,878
Cost of purchases		**1,099**	4,312	**4,616**	7,920
Financing		**6,291**	5,571	**12,711**	10,538
General and administrative		**1,813**	2,093	**3,625**	4,666
Share based compensation	[14]	**1,574**	1,798	**3,083**	3,676
Exploration and evaluation	[7]	**623**	300	**943**	573
Depletion, depreciation and impairment	[8]	**295,929**	41,026	**411,985**	74,942
		344,016	94,454	**513,858**	177,986
Gain (loss) on derivative instruments	[15]	**(12,926)**	(356)	**16,023**	(3,797)
Foreign exchange gain (loss)		**(135)**	42	**185**	(177)
Unrealized gain on investment		**-**	-	**-**	600
Premium on flow-through shares		**-**	-	**1,346**	-
Gain on sale of assets	[6]	**-**	3,525	**1,703**	4,900
Other expenses		**-**	-	**(401)**	-
Other income		**83**	-	**639**	495
Profit (loss) before taxes		**(313,853)**	3,288	**(383,174)**	16,244
Deferred income tax recovery (expense)		**61,192**	(548)	**56,428**	(4,135)
Profit and comprehensive income (loss)		**(252,661)**	2,740	**(326,746)**	12,109
Profit (loss) per common share					
Basic		**(1.35)**	0.01	**(1.74)**	0.07
Diluted		**(1.35)**	0.01	**(1.74)**	0.07

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

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

		Shareholders' capital						
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2019		187,786	1,137,121	(57,668)	12,843	24,739	(193,973)	923,062
Profit and comprehensive income		-	-	-	-	-	(326,746)	(326,746)
Vesting of restricted share units	[14]	133	907	-	-	(907)	-	-
Share based compensation	[14]	-	-	-	-	3,083	-	3,083
Balance at June 30, 2020		**187,919**	**1,138,028**	**(57,668)**	**12,843**	**26,915**	**(520,719)**	**599,399**

Balance at December 31, 2018		184,003	1,119,232	(57,668)	12,843	19,713	(200,324)	893,796
Initial adoption of IFRS 16		-	-	-	-	-	(221)	(221)
Profit and comprehensive income		-	-	-	-	-	12,109	12,109
Exercise of stock options	[14]	4	18	-	-	(5)	-	13
Vesting of restricted share units	[14]	228	1,231	-	-	(1,231)	-	-
Share based compensation	[14]	-	-	-	-	3,676	-	3,676
Balance at June 30, 2019		184,235	1,120,481	(57,668)	12,843	22,153	(188,436)	909,373

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

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

		Three months ended June 30		Six months ended June 30	
(CA$ thousands)	[Notes]	**2020**	2019	**2020**	2019
Operating activities					
Profit (loss) and comprehensive income (loss)		**(252,661)**	2,740	**(326,746)**	12,109
Items not affecting cash:					
Accretion		**1,748**	1,845	**3,609**	3,665
Share based compensation		**1,574**	1,798	**3,083**	3,676
Exploration and evaluation		**623**	300	**943**	573
Depletion, depreciation and impairment	[8]	**295,929**	41,026	**411,985**	74,942
Unrealized loss on derivative financial instruments	[15]	**25,691**	501	**4,044**	3,130
Unrealized gain on investment in securities		**-**	-	**-**	(600)
Unrealized (gain) loss on foreign exchange		**-**	1	**-**	(37)
Other expenses		**-**	-	**401**	-
Premium on flow-through shares		**-**	-	**(1,346)**	-
Gain on sale of assets	[6]	**-**	(3,525)	**(1,703)**	(4,900)
Deferred income tax expense (recovery)		**(61,192)**	548	**(56,428)**	4,135
Cash premiums on derivatives		**-**	-	**1,230**	-
Settlement of decommissioning obligations	[11]	**(570)**	(628)	**(674)**	(1,724)
Change in non-cash operating working capital	[18]	**3,287**	14,033	**26,203**	17,483
Cash provided by operating activities		**14,429**	58,639	**64,601**	112,452
Financing activities					
Increase (decrease) in bank debt		**10,300**	57,671	**20,300**	82,112
Increase (decrease) in financing liability		**(439)**	810	**28,267**	810
Proceeds on exercise of stock options	[14]	**-**	-	**-**	13
Repayment of lease liability principle	[13]	**(303)**	(360)	**(622)**	(680)
Cash provided by financing activities		**9,558**	58,121	**47,945**	82,255
Investing activities					
Exploration and evaluation assets	[7]	**(321)**	(1,428)	**(2,258)**	(1,896)
Property, plant and equipment	[8]	**(27,447)**	(93,246)	**(118,739)**	(197,704)
Property acquisitions	[6]	**-**	-	**(15)**	(3,002)
Property dispositions	[6]	**-**	3,652	**2,118**	3,618
Investment in securities		**-**	(4,000)	**-**	(4,000)
Change in non-cash investing working capital	[18]	**(21,429)**	(24,796)	**(1,863)**	1,898
Cash provided by (used in) investing activities		**(49,197)**	(119,818)	**(120,757)**	(201,086)
Impact of foreign currency on cash balances		**-**	(1)	**-**	37
Net change in cash and cash equivalents		**(25,210)**	(3,059)	**(8,211)**	(6,342)
Cash and cash equivalents, beginning of period		**25,364**	3,172	**8,365**	6,455
Cash and cash equivalents, end of period		**154**	113	**154**	113

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 AND SIX MONTHS ENDED JUNE 30, 2020
[UNAUDITED]

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

1. DESCRIPTION OF THE BUSINESS

Kelt Exploration Ltd. ("Kelt" or the "Company") is an oil and gas company based in Calgary, Alberta, focused on the exploration, development and production of crude oil and natural gas resources, primarily in northwestern Alberta and northeastern British Columbia. The Company's British Columbia assets are operated by Kelt Exploration (LNG) Ltd. ("Kelt LNG"), a wholly owned subsidiary of Kelt. The Company's common shares and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively.

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

2. COVID-19 and Significant Judgements and Estimates

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2019 consolidated annual financial statements.

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

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on August 5, 2020 for issue on August 6, 2020.

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, 2019.

b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 15 of these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2019 consolidated annual financial statements. Except as outlined below, these condensed consolidated interim financial statements as at June 30, 2020 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2019.

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

5. ASSETS HELD FOR SALE ("AHFS")

On July 22, 2020, the Company entered into an agreement to sell its Inga Assets located in British Columbia, for cash consideration of $510.0 million before adjustments. The disposition (hereinafter referenced as the "Inga Assets Disposition") had an effective date of July 1, 2020 and is expected to close on or around August 21, 2020.

The assets and liabilities that are part of the Inga Asset Disposition were classified as held for sale as at June 30, 2020.

Gross purchase price	**510,000**
Exploration and evaluation assets	18,524
Property, plant and equipment, net (1)	564,287
Assets held for sale	**582,811**
Financing obligations	(29,038)
Decommissioning obligations held for sale (2)	(42,548)
Lease obligations and other	(1,204)
Liabilities held for sale	**(72,790)**
Net assets held for sale	**510,021**

(1) Cost of $1,153.7 million, net of accumulated depletion and depreciation of $330.0 million and accumulated impairment of $259.4 million.

(2) The carrying amount of the decommissioning obligations held for sale was estimated based on a risk-free rate of 0.99% and an inflation rate of 0.99% as at June 30, 2020. The estimated undiscounted cash flows required to settle the obligations are approximately $61.2 million.

6. PROPERTY ACQUISITIONS AND DISPOSITIONS

The following table summarizes the fair value of net assets acquired pursuant to property acquisitions during the six months ended June 30, 2020 and the year ended December 31, 2019.

Acquisitions	**June 30, 2020**	December 31, 2019
Exploration and evaluation assets	**1**	6,969
Property, plant and equipment	**965**	828
Decommissioning obligations	**(950)**	(614)
Total assets (liabilities) acquired	**16**	7,183
Consideration		
Cash consideration	**15**	(4,002)
Non-cash consideration	**1**	(3,181)
Total consideration	**16**	(7,183)

Dispositions	**June 30, 2020**	December 31, 2019
Exploration and evaluation assets	**(475)**	(2,900)
Property, plant and equipment	**-**	28
Decommissioning obligations	**59**	889
Carrying value of net (assets) liabilities disposed	**(416)**	(1,983)
Consideration		
Cash consideration, after closing adjustments	**2,118**	5,704
Non-cash consideration	**1**	3,181
Total consideration	**2,119**	8,885
Gain on sale of assets	**1,703**	6,902

7. 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:

	June 30, 2020	December 31, 2019
Balance, beginning of period	**73,891**	119,282
Additions	**2,258**	9,001
Property acquisitions [note 6]	**1**	6,969
Property dispositions [note 6]	**(475)**	(2,900)
Transfers to property, plant and equipment	**(1,823)**	(53,406)
Expired mineral leases	**(943)**	(5,055)
Reclassification – AHFS [note 5]	**(18,524)**	-
Balance, end of period	**54,385**	73,891

8. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	June 30, 2020	December 31, 2019
Development and production ("D&P") assets	**613,957**	1,467,577
Right-of-use ("ROU") assets	**1,633**	2,338
Corporate assets	**218**	496
Total net carrying value of property, plant and equipment	**615,808**	1,470,411

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2018	1,878,643	4,029	-	1,882,672
Initial adoption of IFRS 16	-	-	2,666	2,666
Additions	307,554	771	953	309,278
Property acquisitions [note 6]	828	-	-	828
Property dispositions [note 6]	28	-	(118)	(90)
Decommissioning costs	14,971	-	-	14,971
Transfers from E&E	53,406	-	-	53,406
Balance at December 31, 2019	**2,255,430**	**4,800**	**3,501**	**2,263,731**
Additions	**118,671**	**68**	**842**	**119,581**
Property acquisitions [note 6]	**965**	-	**-**	**965**
Decommissioning costs	**(700)**	**-**	**-**	**(700)**
Transfers from E&E	**1,823**	**-**	**-**	**1,823**
Reclassification – AHFS [note 5]	**(1,152,108)**	**-**	**(1,592)**	**(1,153,700)**
Balance at June 30, 2020	**1,224,081**	**4,868**	**2,751**	**1,231,700**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2018	633,465	3,518	-	636,983
Depletion and depreciation expense	154,388	786	1,222	156,396
Dispositions	-	-	(59)	(59)
Balance at December 31, 2019	**787,853**	**4,304**	**1,163**	**793,320**
Depletion and depreciation expense	**74,499**	**346**	**640**	**75,485**
Impairment	**336,500**	**-**	**-**	**336,500**
Reclassification – AHFS [note 5]	**(588,728)**	**-**	**(685)**	**(589,413)**
Balance at June 30, 2020	**610,124**	**4,650**	**1,118**	**615,892**

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

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

Recoverable amounts for each CGU as of March 31, 2020 were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2019, with the information rolled forward to March 31, 2020. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at March 31, 2020, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on Sproule's December 31, 2019 evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future development capital was moved forward one year from the December 31, 2019 Sproule reserve evaluation due to deferrals of the Company's capital program as of March 31, 2020. The decrease in commodity prices from December 31, 2019 resulted in the removal of wells which were previously economic in the December 31, 2019 Sproule report. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at March 31, 2020 was 12.0% and was based on the risks specific to the assets in the CGUs. As at March 31, 2020, the net carrying amount of PP&E for the Alberta CGU was $576.7 million subsequent to the impairment taken.

Subsequent to June 30, 2020 the Company entered into an agreement to sell its Inga Assets, which are part of the Company's BC CGU, for cash consideration of $510.0 million before closing adjustments (note 19). Based on the purchase and sale agreement, the carrying value of the BC CGU was in excess of the recoverable amount resulting in an impairment loss of $259.4 million (before-tax) as at June 30, 2020. Subsequent to the impairment taken, the net carrying amount of PP&E for the BC CGU was $609.8 million, after which $564.3 million was reclassified to asset held for sale.

Due to the sale of the Inga Assets, as of June 30, 2020, the recoverable amount of the Alberta CGU was estimated as at June 30, 2020 based on FVLCD methodology, using primarily the same assumptions as at March 31, 2020 as described above. Updated market assessments as at June 30, 2020 included long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). The after-tax discount rates applied in the impairment calculation as at June 30, 2020 was 14.0% (March 31, 2020 – 12%) and was based on the risks specific to the assets in the CGUs. No impairment or impairment reversal was recognized as of June 30, 2020 for the Company's CGU in Alberta as the estimated recoverable amount was in-line with its carrying value.

9. BANK DEBT

The Company has a $350.0 million revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. As at June 30, 2020, $320.3 million is drawn under the Credit Facility. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

The Company has deferred the borrowing base redetermination with its banking syndicate pending the sale of the Inga Assets. Upon closing, Kelt expects to repay its bank debt in full. If the sale of the Inga Assets does not close, the Company is uncertain as to the term and amounts of the Credit Facility following the scheduled bank review on August 31, 2020 (note 15).

The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 15 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

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

10. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2018	89,910	78,390	12,843
Accretion of discount	-	4,399	-
Balance at December 31, 2019	**89,910**	**82,789**	**12,843**
Accretion of discount	**-**	**2,392**	**-**
Balance at June 30, 2020	**89,910**	**85,181**	**12,843**

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at June 30, 2020. The Debentures may be redeemed by the Company at a redemption price equal to their principal amount plus accrued and unpaid interest. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price").

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

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). At June 30, 2020, the fair value of the Debentures was $82.7 million (note 15).

11. 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:

	June 30, 2020	December 31, 2019
Balance, beginning of period	**160,023**	144,667
Obligations incurred	**773**	4,995
Obligations acquired [note 6]	**950**	614
Obligations disposed [note 6]	**(59)**	(889)
Obligations settled	**(674)**	(2,334)
Changes in discount rate	**43,881**	21,373
Changes in inflation rate	**(44,183)**	(12,868)
Revisions to estimates	**(1,171)**	1,471
Accretion expense	**1,217**	2,994
Reclassification – Decommissioning obligations held for sale [note 5]	**(42,548)**	-
Balance, end of period	**118,209**	160,023
Decommissioning obligations – current	**1,248**	2,094
Decommissioning obligations – non-current	**116,961**	157,929
Key assumptions		
Risk free rate	**0.99%**	1.8%
Inflation rate	**0.99%**	1.8%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at June 30, 2020 the undiscounted amount of the estimated cash flows required to settle the obligation is $118.6 million (December 31, 2019 – $160.0 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 0.99%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $158.5 million at June 30, 2020 (December 31, 2019 – $291.2 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

12. FINANCING LIABILITY

	June 30, 2020	**December 31, 2019**
Balance, beginning of period	**771**	-
Additions	**28,727**	810
Payments	**(1,247)**	(143)
Interest expense	**787**	104
Reclassification – Financing liability held for sale [note 5]	**(29,038)**	-
Balance, end of period	**-**	771
Financing liability – current	**-**	771
Financing liability – non-current	**-**	-

13. LEASE LIABILITY

	June 30, 2020	December 31, 2019
Balance, beginning of period	**2,668**	2,888
Additions	**842**	953
Disposals	**-**	(59)
Interest expense	**95**	165
Lease payments	**(717)**	(1,279)
Reclassification – Lease liability held for sale [note 5]	**(956)**	-
Balance, end of period	**1,932**	2,668
Lease liability – current	**859**	1,055
Lease liability – non-current	**1,073**	1,613

The Company has lease liabilities for contracts related to drilling rigs, office space, field equipment, and vehicle leases. The weighted average discount rate for new leases entered in the quarter ended June 30, 2020 was 4.8%. Payments under the Company's short-term leases were $3.4 million for first half of 2020, which primarily related to short term drilling rig leases.

14. 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 June 30, 2020 (December 31, 2019 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2018	184,003	1,119,232
Issued for cash through common share offerings	3,450	17,423
Deferred premium on flow-through shares	-	(1,346)
Issued for cash on exercise of stock options	4	13
Transfer from contributed surplus on exercise of stock options	-	5
Released upon vesting of restricted share units	329	1,828
Share issue costs, net of deferred taxes ($12)	-	(34)
Balance at December 31, 2019	**187,786**	**1,137,121**
Released upon vesting of restricted share units	**133**	**907**
Balance at June 30, 2020	**187,919**	**1,138,028**

Flow-through common shares

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities ("FTS") to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of June 30, 2020, all eligible expenditures for the Company's flow through shares from 2019 have been incurred.

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2018	9,803	6.20
Granted	2,305	2.92
Exercised (1)	(4)	3.25
Forfeited	(227)	5.66
Expired	(1,862)	9.96
Balance at December 31, 2019	**10,015**	**4.76**
Granted	**2,710**	**1.03**
Forfeited	**(42)**	**3.51**
Expired	**(104)**	**7.84**
Balance at June 30, 2020	**12,579**	**3.93**

(1) The weighted average share price on the date stock options were exercised during the quarter ended June 30, 2020 was $nil per common share ($5.27 per common share on average during the year ended December 31, 2019).

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

	Six months ended June 30	
	2020	2019
Risk free interest rate	**0.52%**	1.7%
Expected life (years)	**3.5**	3.9
Expected volatility (1)	**67.7%**	46.0%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.4%**	4.7%
Fair value of options granted during the year ($/share)	**0.48**	1.93

(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 June 30, 2020:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	4,728	4.5	1.76	-	-
$3.51 to $6.50	7,183	2.0	5.02	4,997	5.00
$6.51 to $9.50	668	2.4	7.64	448	7.50
Total	**12,579**	**2.9**	**3.93**	**5,445**	**5.20**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2018	1,097
Granted	144
Released upon vesting	(329)
Forfeited	(47)
Balance at December 31, 2019	**865**
Granted	**10**
Released upon vesting	**(133)**
Forfeited	**(9)**
Balance at June 30, 2020	**733**

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 June 30		Six months ended June 30	
	2020	2019	**2020**	2019
Stock options	**985**	1,087	**1,827**	2,203
Restricted share units	**589**	711	**1,256**	1,473
Total share based compensation expense	**1,574**	1,798	**3,083**	3,676

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 June 30		Six months ended June 30	
(000s of common shares)	**2020**	2019	**2020**	2019
Weighted average common shares outstanding, basic	**187,794**	184,151	**187,845**	184,085
Effect of stock options and RSUs	**54**	381	**785**	428
Weighted average common shares outstanding, diluted	**187,848**	184,532	**188,630**	184,513

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 three and six months ended June 30, 2020, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible. The common shares issuable on conversion of the Debentures were determined to be anti-dilutive for the quarter ended June 30, 2020.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

As at June 30, 2020, the following commodity price risk management contracts are outstanding:

Contract Type (1)(2)(3)	Notional Volume	Contract Price	Term
Crude oil derivative contracts			
MSW fixed price swap	3,000 bbl/d	CAD$31.36/bbl	July - Dec 2020
NGL derivative contracts			
OPIS-Conway propane fixed price swap	500 bbl/d	CAD$23.35/bbl	Apr - Dec 2020
Natural gas derivative contracts			
NYMEX fixed price swap	45,000 MMBtu/d	CAD$2.83/MMBtu	Apr - Nov 2020
NYMEX to AECO 5A differential	25,000 MMBtu/d	NYMEX less USD$0.4675/MMBtu	Jun - Oct 2020

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

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. Based on average bank debt outstanding of $312.8 million at the end of the second quarter of 2020, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.8 million.

As at June 30, 2020, the following interest rate risk management contracts are outstanding:

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

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

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure from certain U.S. dollar denominated natural gas marketing arrangements.

As at June 30, 2020, the following foreign exchange risk management contracts are outstanding:

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

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

Gains and losses on risk management contracts

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	**2020**	2019
Realized gain (loss)	**12,765**	145	**20,067**	(667)
Unrealized loss	**(25,691)**	(501)	**(4,044)**	(3,130)
Loss on derivative financial instruments	**(12,926)**	(356)	**16,023**	(3,797)

Fair value measurements

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

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

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

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

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at June 30, 2020:

	Carrying Value ("CV")			Fair Value		
	Gross	Netting(1)	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	2,113	-	2,113	-	2,113	-
Investment in securities	5,600	-	5,600	-	-	5,600
Financial liabilities						
Derivative financial instrument	9,693	-	9,693	-	9,693	-
Convertible debentures [note 10]	85,181	-	85,181	82,717	-	-

(1) Financial assets and liabilities are only offset if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Kelt offsets derivative contracts assets and liabilities when the counterparty, commodity, currency and timing of settlement

are the same.

The fair value of the convertible debentures of $82.7 million as at June 30, 2020, is based on the closing market price of $92.00 per Debenture, being the price at which the Debentures last traded in the quarter and represents the market value of the entire instrument. As at December 31, 2019, the fair value was $102.5 million based on the closing market price of $114.00 per Debenture.

Credit Risk

As at June 30, 2020, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

Accounts receivable and accrued sales	**June 30, 2020**	December 31, 2019
Joint venture partners	**4,450**	2,320
Oil and gas marketers	**22,059**	37,548
GST input tax credits	**2,092**	4,802
Risk management contracts	**3,643**	189
Other	**1,284**	113
Total	**33,528**	44,972

During the quarter ended June 30, 2020, sales to four oil and gas marketers each individually represented more than 10% of total sales. Sales to these marketers account for approximately 27%, 10%, 34% and 14%, of total sales, respectively. During the comparative period ended December 31, 2019, sales to three oil and gas marketers accounted for approximately 20%, 19%, and 38% of total sales, respectively. Kelt has mitigated some of its credit risk through parental guarantees (with terms ranging from two to five years) and through the majority of its sales to oil and gas marketers that have been rated investment-grade by a reputable 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 June 30, 2020, the collection risk on outstanding accounts receivable balances is considered low as only 3.0% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2019 – 5.1%).

Liquidity Risk

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

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, the Company targets to maintain sufficient unused bank credit lines over the long term to satisfy such working capital deficiencies.

As a result of the COVID-19 pandemic (as described in note 2), global economic markets and crude oil demand have collapsed. The length and severity of the impacts of COVID-19 on crude oil demand and pricing is currently uncertain. However, management believes that the long-term viability of the oil and gas industry remains intact and commodity prices will begin to improve once COVID related restrictions on the worldwide economy dissipates. The information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to be fluid.

Subsequent to June 30, 2020, on July 22, 2020 Kelt announced it has entered into an agreement to sell its Inga Assets for cash consideration of $510.0 million (note 19). The purchaser is also assuming $72.8 million in abandonment, financing, and lease obligations. Following the completion of the sale of these assets, Kelt expects to repay its bank debt in full, will have positive net working capital, and the ability to repay its convertible debentures.

The Company has deferred the borrowing base redetermination with its banking syndicate pending the sale of the Inga Assets. Upon closing, Kelt expects to repay its bank debt in full. If the sale of the Inga Assets does not close, the Company is uncertain as to the term and amounts of the Credit Facility following the scheduled bank review on August 31, 2020. Based on current commodity prices, a borrowing base redetermination is likely to result in a decrease to the amount available under the Credit Facility. At June 30, 2020 the Company had limited liquidity remaining under the Credit Facility and a reduction in the amount of the facility would require additional debt or equity financing or asset sales.

The Company's working capital deficit of $62.9 million combined with outstanding bank debt of $320.3 million as at June 30, 2020, represented 109% of the authorized borrowing amount available under the credit facility of $350.0 million.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at June 30, 2020:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	88,461	-	-	**88,461**
Derivative financial instruments	9,693	-	-	**9,693**
Bank debt and estimated interest (1)	10,890	320,300	-	**331,190**
Convertible debentures (2)	94,036	-	-	**94,036**
Lease liability	858	1,073	-	**1,931**
Financial liabilities relating to AHFS [note 5]				
Accounts payable and accrued liabilities	248	-	-	**248**
Lease liability	293	576	87	**956**
Financing liability	2,536	12,302	14,200	**29,038**
Total	**207,015**	**334,251**	**14,287**	**555,553**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 3.4% for the period ended June 30, 2020, applied to the principal balance outstanding as at that date. For purposes of this analysis, principal repayment of the Company's revolving Credit Facility is assumed to occur on April 1, 2021.

(2) The contractual maturity analysis includes semi-annual cash interest payments at the fixed coupon rate of 5.0%, assuming that the $89.9 million principal amount of the Debentures is outstanding for the full term to maturity on May 31, 2021, provided that: the equity conversion option is not first exercised by the holder; and that the Company does not elect to settle its financial obligation by issuing common shares instead of cash at redemption or maturity. Refer to additional information regarding the Debentures in note 9.

Capital Management

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

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

	June 30, 2020	December 31, 2019
Bank debt	**320,300**	300,000
Working capital deficiency (1)	**62,900**	28,080
Net bank debt (2)	**383,200**	328,080
Annualized quarterly adjusted funds from operations (3)(4)	**46,848**	186,620
Net bank debt to annualized quarterly adjusted funds from operations ratio (2)	**8.2**	1.8

(1) Working capital deficiency does not include assets held for sale, liabilities held for sale, and convertible debentures.

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

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

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

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

The decrease in commodity prices in the second quarter due to the COVID-19 pandemic, resulted in a significant decrease in the Company’s second quarter of 2020 adjusted funds from operations. Net bank debt as of June 30, 2020 was $383.2 million versus Kelt’s bank facility of $350.0 million. As such, as of June 30, 2020 the Company’s net bank debt to annualized quarterly adjusted funds was 8.2 times, which increased from 1.8 times at December 31, 2019, and is above the Company’s stated target of 2.0 times.

Subsequent to the completion of the sale of its Inga Assets (refer to note 19), Kelt expects to repay its bank debt in full, will have positive net working capital, and has the ability to repay its convertible debentures. If the sale of the Inga Assets does not close, the Company is uncertain as to the term and amounts of the Credit Facility following the scheduled bank review on August 31, 2020. Based on current commodity prices, a borrowing base redetermination is likely to result in a decrease to the amount available under the Credit Facility. At June 30, 2020 the Company had limited liquidity remaining under the Credit Facility and a reduction in the amount of the facility would require additional debt or equity financing or asset sales.

As more particularly described in note 9, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at June 30, 2020, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

16. REVENUE

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the six months ended June 30, 2020, transportation costs incurred in relation to these contracts was $9.8 million.

Kelt has a number of variable priced long-term commodity sales contracts where the volumes under these contracts for future periods have not yet been fulfilled resulting in unsatisfied performance obligations as at the reporting date.

These contracts have varying durations, with the longest individual commodity sales contract ending in October 2020.

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	**2020**	2019
Oil production	**21,025**	63,424	**60,949**	109,333
Oil treating and other	**141**	94	**315**	284
NGLs production	**4,857**	8,635	**10,848**	17,489
Gas production	**18,418**	22,389	**39,722**	61,577
Gas processing and other	**331**	335	**643**	616
Marketing revenue	**682**	5,857	**3,895**	14,020
Total petroleum and natural gas sales	**45,454**	100,734	**116,372**	203,319

Included in accounts receivable at June 30, 2020 is $22.1 million (December 31, 2019 - $37.5 million) of accrued oil and gas sales related to June 2020 production.

17. COMMITMENTS

As of June 30, 2020, the Company is committed to future payments under the following agreements:

	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	4,260	10,645	10,653	10,662	10,701	38,002
Firm transportation commitments (1)	13,123	19,032	17,245	13,272	11,743	27,322
	17,383	29,677	27,898	23,934	22,444	65,324
Commitments relating to AHFS (2)						
Firm processing commitments	3,640	8,405	13,163	13,164	10,980	57,480
Firm transportation commitments	3,782	9,509	9,367	8,655	8,655	131,273
Total commitments relating to AHFS	7,422	17,914	22,530	21,819	19,635	188,753
Total commitments	**24,805**	**47,591**	**50,428**	**45,753**	**42,079**	**254,077**

(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 June 30, 2020 of CA$/US$1.3628.

(2) Subsequent to June 30, 2020, a portion of Kelt's commitments that relate to the Inga Assets Disposition (note 19) will be transferred to the purchaser upon closing of the sale. This includes a take-or-pay firm processing commitment for 75 MMcf/d of raw gas over a 10-year term and firm transportation on the North Montney Mainline over a 20-year term.

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
Changes in non-cash working capital	**2020**	2019	**2020**	2019
Accounts receivable and accrued sales	**(419)**	4,935	**11,444**	2,540
Prepaid expenses and deposits	**298**	(235)	**660**	167
Accounts payable and accrued liabilities	**(18,269)**	(15,463)	**12,389**	16,674
Change in non-cash working capital	**(18,390)**	(10,763)	**24,493**	19,381
Relating to:				
Operating activities	**3,287**	14,033	**26,203**	17,483
Investing activities	**(21,429)**	(24,796)	**(1,863)**	1,898
Items not impacting cash	**(248)**	-	**153**	-
Change in non-cash working capital	**(18,390)**	(10,763)	**24,493**	19,381

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

	Three months ended June 30		Six months ended June 30	
Cash outlays in respect of interest and taxes	**2020**	2019	**2020**	2019
Interest and standby fees on bank debt	**2,278**	1,098	**5,545**	4,711
Interest on convertible debentures (1)	**2,242**	2,242	**2,242**	2,242
Taxes (2)	**-**	-	**-**	-

(1) Interest on the Debentures is payable semi-annually on May 31st and November 30th (note 10).

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

19. SUBSEQUENT EVENTS

Greater Inga Disposition

On July 22, 2020, Kelt entered into an agreement to sell its Inga Assets. The assets and associated liabilities disposed were classified as held for sale as at June 30, 2020 and the carrying amounts are disclosed in note 5. The Inga Assets Disposition is expected to close on or around August 21, 2020 with an effective date of July 1, 2020. Kelt will receive cash consideration, prior to adjustments at closing, of $510.0 million.

ABBREVIATIONS

bbls	barrels
mbbls	thousand barrels
bbls/d	barrels per day
BOE	barrels of oil equivalent
mBOE	thousand barrels of oil equivalent
BOE/d	barrels of oil equivalent per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mmcf/d	million cubic feet per day
MMBtu	million British Thermal Units
GJ	gigajoules
AECO	Alberta Energy Company "C" Meter Station of the NOVA Pipeline System
NIT	NOVA Inventory Transfer ("AB-NIT"), being the reference price at the AECO Hub
WTI	West Texas Intermediate
NYMEX	New York Mercantile Exchange
Station 2	Spectra Energy receipt location
NGX	Natural Gas Exchange Inc. (Canada)
API	American Petroleum Institute
MD&A	Management's Discussion and Analysis
Q1	First quarter ended March 31st
Q2	Second quarter ended June 30th
Q3	Third quarter ended September 30th
Q4	Fourth quarter ended December 31st
YTD	Year to date
BT	Before income taxes
AT	After income taxes
1P	Proved reserves
2P	Proved plus probable reserves

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

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

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

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

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

Douglas J. Errico
Vice President, Land

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

David A. Gillis
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick W.G. Miles
Vice President, Exploration

Carol Van Brunschot
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Convertible Debentures “KEL.DB”

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