kelt exploration

SECOND QUARTER REPORT

AS AT AND FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2022

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
FINANCIAL						
Petroleum and natural gas sales	**178,938**	60,644	195	**317,384**	120,479	163
Cash provided by operating activities	**91,623**	34,529	165	**157,176**	61,111	157
Adjusted funds from operations (1)	**94,783**	29,452	222	**168,952**	56,903	197
Basic ($/ common share) (1)	**0.50**	0.16	213	**0.89**	0.30	197
Diluted ($/ common share) (1)	**0.48**	0.15	220	**0.87**	0.30	190
Net income and comprehensive income	**70,711**	54,654	29	**81,431**	57,508	42
Basic ($/ common share)	**0.37**	0.29	28	**0.43**	0.30	43
Diluted ($/ common share)	**0.36**	0.29	24	**0.42**	0.30	40
Capital expenditures, net of A&D (1)	**89,072**	45,786	95	**172,765**	75,232	130
Total assets	**1,035,372**	842,454	23	**1,035,372**	842,454	23
Net debt (surplus) (1)	**23,117**	(6,696)	-445	**23,117**	(6,696)	-445
Shareholders' equity	**818,734**	663,284	23	**818,734**	633,284	23
Weighted average shares outstanding (000s)						
Basic	**191,174**	188,634	1	**190,284**	188,610	1
Diluted	**195,848**	190,491	3	**194,576**	190,223	2
OPERATIONS						
Average daily production						
Oil (bbls/d) (2)	**4,871**	3,660	33	**5,473**	3,815	43
NGLs (bbls/d)	**4,809**	2,932	64	**4,412**	3,179	39
Gas (mcf/d)	**108,199**	78,001	39	**106,070**	73,402	45
Combined (BOE/d)	**27,713**	19,592	41	**27,563**	19,228	43
Production per million common shares (BOE/d)(1)	**145**	104	39	**145**	102	42
Net realized prices, before financial instruments(1)						
Oil ($/bbl) (2)	**135.36**	76.33	77	**123.35**	71.75	72
NGLs ($/bbl)	**79.24**	32.94	141	**72.30**	33.66	115
Gas ($/mcf)	**8.14**	3.49	133	**6.82**	3.62	88
Operating netbacks ($/BOE) (1)						
Petroleum and natural gas sales	**70.96**	34.02	109	**63.61**	34.61	84
Cost of purchases	**(1.63)**	(0.93)	75	**(1.34)**	(1.00)	34
Combined net realized price, before financial instruments (1)	**69.33**	33.09	110	**62.27**	33.61	85
Realized loss on financial instruments	**(10.83)**	(1.60)	577	**(8.01)**	(1.35)	493
Combined net realized price, after financial instruments (1)	**58.50**	31.49	86	**54.26**	32.26	68
Royalties	**(7.20)**	(2.80)	157	**(6.62)**	(2.75)	141
Production expense	**(9.82)**	(7.65)	28	**(9.72)**	(8.53)	14
Transportation expense	**(2.96)**	(3.36)	-12	**(3.01)**	(3.30)	-9
Operating netback (1)	**38.52**	17.68	118	**34.91**	17.68	97
Land holdings						
Gross acres	**761,479**	795,338	-4	**761,479**	795,338	-4
Net acres	**545,063**	575,869	-5	**545,063**	575,869	-5

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

(2) “Oil” includes crude oil and field condensate

MESSAGE TO SHAREHOLDERS

During the second quarter of 2022, Kelt continued to maintain its strong financial position and with quarter over quarter growth in production and higher commodity prices, the Company demonstrated significant growth in funds from operations during the quarter. In addition, Kelt recorded net income of $70.7 million ($0.36 per share) for the three months ended June 30, 2022.

Kelt's average production for the three months ended June 30, 2022 was 27,713 BOE per day, up 41% from average production of 19,592 BOE per day during the corresponding period in 2021 and up 1% from average production of 27,413 BOE per day during the first quarter of 2022. Quarter-over-quarter production grew marginally despite downtime experienced at the NRM Gordondale East Gas Plant where Kelt processes approximately 35.0 MMcf per day of raw gas and which was shut-in for just over two weeks for its periodic (every 3-5 years) plant turnaround maintenance. Production for the three months ended June 30, 2022 was weighted 35% oil and NGLs and 65% gas.

Kelt's realized average oil price during the second quarter of 2022 was $135.36 per barrel, up 77% from $76.33 per barrel in the second quarter of 2021. The realized average NGLs price during the second quarter of 2022 was $79.24 per barrel, up 141% from $32.94 per barrel in the same quarter of 2021. Kelt's realized average gas price for the second quarter of 2022 was $8.14 per Mcf, up 133% from $3.49 per Mcf in the corresponding quarter of the previous year.

For the three months ended June 30, 2022, petroleum and natural gas sales were $178.9 million and adjusted funds from operations was $94.8 million ($0.48 per share, diluted), compared to $60.6 million and $29.5 million ($0.15 per share, diluted) respectively, in the second quarter of 2021. At June 30, 2022, net debt was $23.1 million or 0.1 times annualized second quarter adjusted funds from operations.

Capital expenditures, net of A&D incurred during the three months ended June 30, 2022 were $89.1 million. During the second quarter of 2022, the Company spent $53.4 million on drill and complete operations and $34.5 million on facilities, pipelines and equipment.

Capital Program – Second Half of 2022

In its Oak/Flatrock Division, pending resumption of permit approvals by the B.C. Oil and Gas Commission, Kelt expects to drill four Upper Montney wells at Oak and also complete the previously drilled Middle Montney well at Flatrock located at 13-2-86-16W6 (on the eastern part of the Company's 300-section contiguous land block). In addition, Kelt expects to complete facility enhancements at its Oak 6-35 Facility, increasing gas compression by approximately 33%.

At its Pouce Coupe/Progress/Spirit River Division, Kelt expects to tie-in and commence production from four Montney oil wells that have already been drilled and completed. In the Charlie Lake play, the Company has initiated a six well development program at Spirit River and expects to have these wells drilled, completed and tied-in by the end of the year.

In the Wembley/Pipestone Division, Kelt has spud its first Charlie Lake well (60% working interest) and with success could follow-up with additional drilling in the Charlie Lake formation in 2023. The Company plans to drill and complete two Montney D2 oil wells (50% working interest) and drill a Montney D3 well during the second half of 2022. During September 2022, Kelt will experience production downtime when the TWM Pipestone Gas Plant, where the Company processes approximately 33.0 MMcf per day of raw gas, is expected to be shut-in for approximately three weeks as it conducts plant turnaround maintenance.

After an active drilling program and pipeline construction at Wembley/Pipestone, Kelt is currently either restricting production from certain wells or has shut-in production from certain wells in the area due to third-party gas processing congestion. These limitations are expected to be alleviated with cooler weather and resulting improvements in plant efficiencies. In addition, Kelt's access to incremental gas processing capacity is expected to increase as the Company has agreed to enter into definitive gas processing arrangements with certain midstream companies that are currently awaiting final approval to either build new gas processing plants and expand existing gas processing plants in the area. In addition to the Company's plant ownership interests and firm service gas processing contracts currently in place at three different gas plants in the area, Kelt expects to add an incremental 75.0 MMcf per day of gas processing capacity in the next two years. A third is expected in the fourth quarter of 2023, another third in the first quarter of 2024 and the remaining third in the fourth quarter of 2024.

Kelt expects to spend $300.0 million in its capital expenditure program for 2022. Production is forecasted to average between 30,000 and 31,000 BOE per day, an increase of between 43% and 48% from average production of 20,987 BOE per day in 2021. Adjusted funds from operations for 2022 is forecasted to be $350.0 million or 17% greater than the Company's planned capital expenditure program. Kelt will continue to maintain its strong financial position. At December 31, 2022, the Company expects to have a net surplus of $25.0 million.

The following table summarizes the changes to 2022 guidance since the Company's original forecast was prepared in November 2021:

($MM, unless otherwise specified)	2022 Guidance (Nov/21)	2022 Guidance (Mar/22)	2022 Guidance (May/22)	**2022 Guidance (Current)**	Percent Change
Commodity Prices					
WTI Crude Oil (USD/bbl)	72.00	85.00	90.00	**95.00**	6%
NYMEX Natural Gas (USD/MMBtu)	4.10	4.15	5.35	**6.00**	12%
Exchange Rate (CAD/USD)	1.227	1.250	1.255	**1.280**	2%
Production					
Oil & NGLs (bbls/d)	11,450	11,580	11,580	**10,500 – 11,050**	(9%) – (5%)
Gas (MMcf/d)	111.30	116.52	116.52	**117.00 – 119.70**	0% - 3%
Combined (BOE/d)	30,000	31,000	31,000	**30,000 – 31,000**	(3%) - 0%
Financial					
P&NG Sales	444.7	518.8	608.2	**653.0**	7%
Adjusted funds from operations	245.0	300.0	340.0	**350.0**	3%
AFFO per share, diluted	1.28	1.55	1.74	**1.79**	3%
Capital expenditures	200.0 – 210.0	250.0	265.0	**300.0**	13%
Net debt (surplus)	(23.8)	(19.0)	(50.0)	**(25.0)**	(50%)

Management looks forward to updating shareholders with 2022 third quarter results on or about November 10, 2022.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
August 4, 2022

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

This Management's Discussion and Analysis ("MD&A") is dated August 4, 2022 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, 2022 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2021. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's Board of Directors approved and authorized the consolidated interim financial statements for issue on August 4, 2022.

GENERAL ADVISORY

This MD&A contains certain specified financial measures consisting of non-GAAP measures, capital management measures, and supplementary financial measures. These non-GAAP and other financial measures include "adjusted funds from operations", "annualized quarterly adjusted funds from operations", "adjusted funds from operations per common share", "petroleum and natural gas sales before marketing revenue" "petroleum and natural gas sales after cost of purchases", "operating netback", "net debt (surplus)", "net realized prices", Capital expenditures, before A&D" "Capital expenditures, net of A&D and "net debt (surplus) to annualized quarterly adjusted funds from operations ratio" which do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information and reconciliation to Canadian generally accepted accounting principles "GAAP" measures, see "*Non-GAAP and Other Financial Measures*" in this MD&A.

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

BASIS OF PRESENTATION

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

FINANCIAL AND OPERATING SUMMARY

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**178,938**	60,644	195	**317,384**	120,479	163
Cash provided by operating activities	**91,623**	34,529	165	**157,176**	61,111	157
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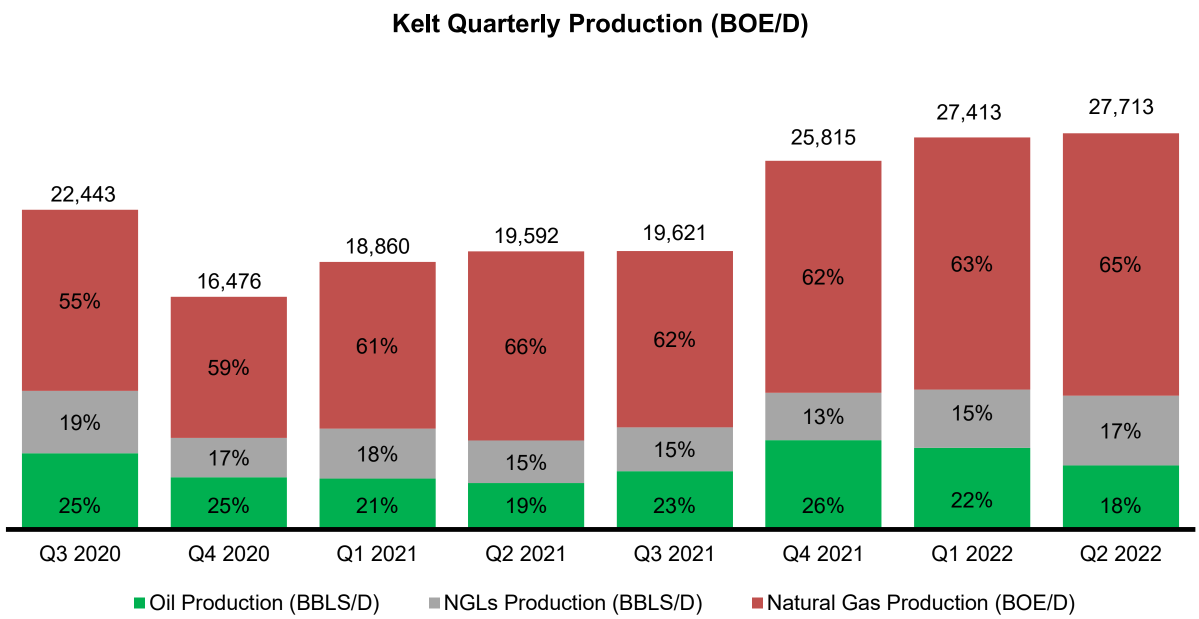
Net income and comprehensive net income	**70,711**	54,654	29	**81,431**	57,508	42
Diluted ($/ common share)	**0.36**	0.29	24	**0.42**	0.30	40
Capital expenditures, net of A&D (1)	**89,072**	45,786	95	**172,765**	75,232	130
Net debt (surplus) (1)	**23,117**	(6,696)	-445	**23,117**	(6,696)	-445
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**27,713**	19,592	41	**27,563**	19,228	43
Combined net realized price, before financial instruments (1)	**69.33**	33.09	110	**62.27**	33.61	85
Combined net realized price, after financial instruments (1)	**58.50**	31.49	86	**54.26**	32.26	68
Operating netback (1)	**38.52**	17.68	118	**34.91**	17.68	97

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

In the second quarter of 2022, Kelt's financial and operating results are highlighted by the following:

- **Production –** Q2 2022 production averaged 27,713 BOE per day (35% oil/NGLs), an increase of 41% from an average of 19,592 BOE per day (34% oil/NGLs) in the second quarter of 2021.
- **Petroleum and natural gas sales –** For the three months ended June 30, 2022, petroleum and natural gas sales was $178.9 million, an increase of 195% from the second quarter of 2021. Kelt's combined net realized price before financial instruments of $69.33 per BOE increased 110% from the second quarter of 2021.
- **Operating netback –** Kelt's operating netback was $38.52 per BOE for the quarter ended June 30, 2022, an increase of 118% from $17.68 per BOE during the quarter ended June 30, 2021. The increase in the operating netback per BOE was driven by an increase in crude oil and natural gas prices in 2022.
- **Cash provided by operating activities and adjusted funds from operations –** Cash provided by operating activities increased to $91.6 million in the second quarter of 2022 compared to $34.5 million in the second quarter of 2021. Adjusted funds from operations of $94.8 million ($0.48 per share, diluted) in the second quarter of 2022 increased 222% from $29.5 million ($0.15 per share, diluted) in the second quarter of 2021.
- **Net income –** Kelt reported net income of $70.7 million ($0.36 per common share, diluted) for the three months ended June 30, 2022, compared to a net income of $54.7 million ($0.29 per common share, diluted) in the comparative period in 2021. The increase in net income in 2022 was due to higher benchmark commodity prices and higher production in 2022. For the three months ended June 30, 2021, Kelt recorded an impairment reversal of $70.1 million (before-tax).
- **Capital investments –** Capital expenditures, before A&D, was $89.1 million in the second quarter of 2022 and included the drilling of 8.0 net wells and completion of 9.0 net wells. Capital expenditures for facilities, pipeline and well equipment of $34.5 million was focused on well equipment, pipeline construction and facility optimization work.
- **Liquidity –** The Company ended the quarter with net debt of $23.1 million (0.1 times annualized quarterly adjusted funds from operations), comprised primarily of an accounts payable balance of $105.3 million offset by an accounts receivable balance of $69.0 million and a cash balance of $9.2 million.

PRODUCTION



	Three months ended June 30			Six months ended June 30		
	2022	2021	%	**2022**	2021	%
Average daily production:						
Oil (bbls/d) (1)	**4,871**	3,660	33	**5,473**	3,815	43
NGLs (bbls/d)	**4,809**	2,932	64	**4,412**	3,179	39
Gas (mcf/d)	**108,199**	78,001	39	**106,070**	73,402	45
Combined (BOE/d)	**27,713**	19,592	41	**27,563**	19,228	43
Oil and NGLs weighting	**35%**	34%	3	**36%**	36%	-

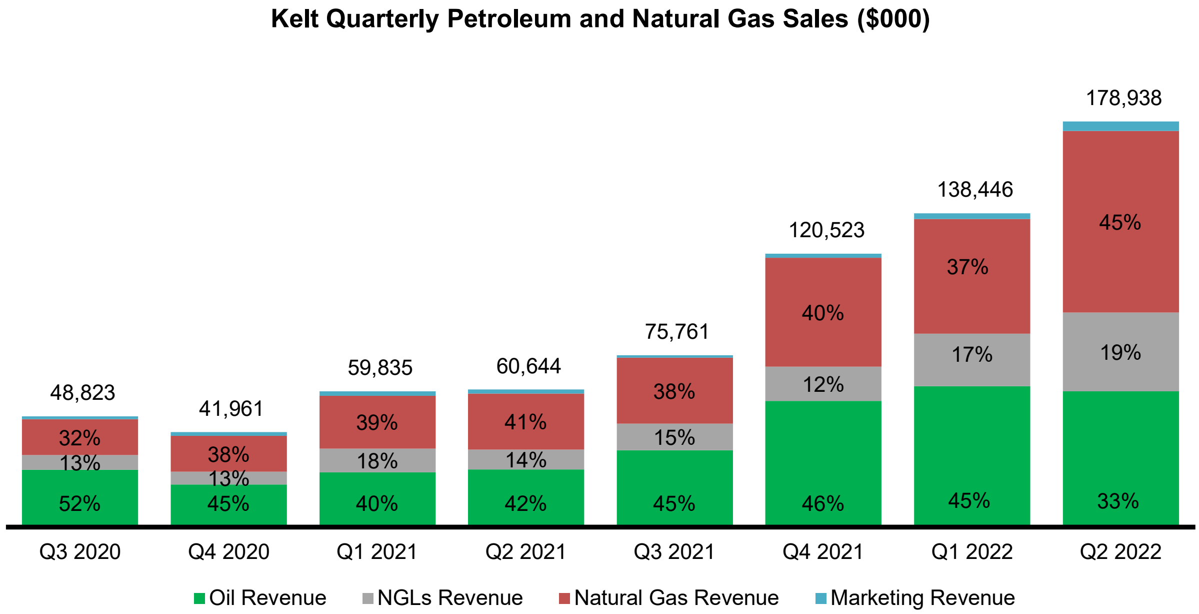
(1) "Oil" includes crude oil and field condensate

Average production for the three months ended June 30, 2022 of 27,713 BOE per day and for the six months ended June 30, 2022 of 27,563 BOE per day increased 41% and 43%, respectively from the comparable periods in 2021 as the Company continues to grow its production base.

Oil and NGLs weighting of total production in the second quarter of 2022 remained consistent at 35% compared to 34% in the second quarter of 2021.

Total production increased by approximately 1% in the second quarter of 2022 compared to the first quarter of 2022. Increases in production from wells brought on-stream in the second quarter of 2022 were offset by unplanned third party facility outages.

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



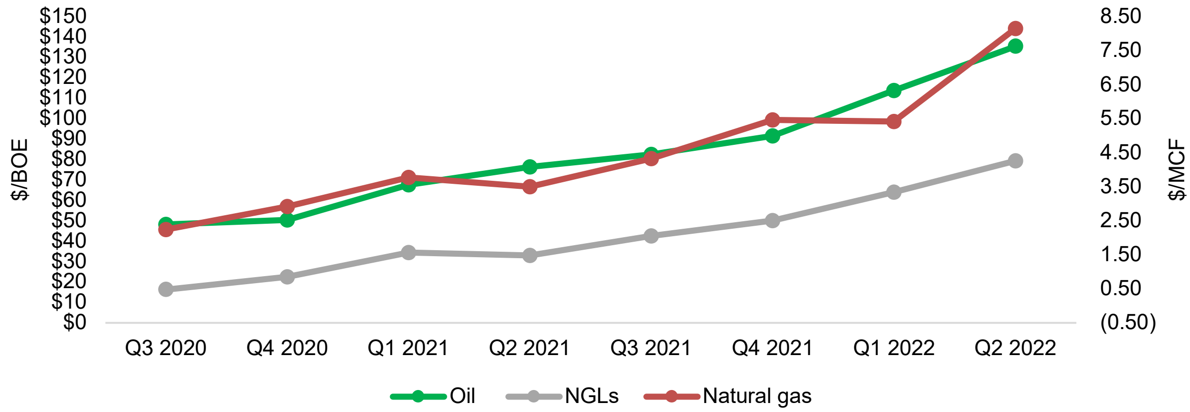
	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
P&NG Sales before royalties and financial instruments						
Oil (5)	**59,892**	25,362	136	**122,063**	49,401	147
NGLs	**34,674**	8,789	295	**57,746**	19,368	198
Gas	**80,138**	24,772	224	**130,793**	48,073	172
P&NG Sales before marketing revenue (4), (6)	**174,704**	58,923	196	**310,602**	116,842	166
Marketing revenue (1)	**4,234**	1,721	146	**6,782**	3,637	86
P&NG Sales	**178,938**	60,644	195	**317,384**	120,479	163
Cost of purchases (2)	**(4,121)**	(1,661)	148	**(6,669)**	(3,495)	91
P&NG Sales after cost of purchases (3), (6)	**174,817**	58,983	196	**310,715**	116,984	166
Combined net realized price ($/BOE) (4), (6)	**69.33**	33.09	110	**62.27**	33.61	85

(1) Marketing revenue includes third-party volumes related to the Company's oil blending operations and natural gas activities.
(2) Cost of purchases includes costs for the purchase of third-party volumes related to the Company's oil blending operations and natural gas activities.
(3) P&NG sales after cost of purchases includes petroleum and natural gas sales, net of the cost of the third-party volumes purchased.
(4) Combined net realized price ($/BOE) equals P&NG sales after cost of purchases divided by total production.
(5) "Oil" includes crude oil and field condensate.
(6) Refer to advisories regarding Non-GAAP and Other Financial Measures.

Petroleum and natural gas sales for the second quarter of 2022 was $178.9 million, up 195% from $60.6 million in the second quarter of 2021. Petroleum and natural gas sales for the six months ending June 30, 2022 was $317.4 million, up 163% from the comparable period in 2021. The increase in P&NG sales from 2021 was due to a significant increase in benchmark crude oil and natural gas prices, and an increase in production.

Petroleum and natural gas sales of $178.9 million in the second quarter of 2022 increased by 29% from $138.4 million in the first quarter of 2022. The increase in the second quarter was primarily due to higher realized prices for natural gas, oil and NGLs.

Kelt Quarterly Realized Prices (1)



(1) Net realized prices are calculated based on Petroleum and Natural Gas Sales, less the cost of purchases of third-party volumes and reflect Kelt's realized commodity prices plus the net benefit of oil blending and natural gas marketing activities. Net realized prices exclude both realized and unrealized gains and losses on risk management contracts. Refer to additional information under the heading of *"Non-GAAP and Other Financial Measures"*.

	Three months ended June 30			Six months ended June 30		
	2022	2021	%	**2022**	2021	%
Net realized prices (10)						
Oil ($/bbl) (9)	**135.36**	76.33	77	**123.35**	71.75	72
NGLs ($/bbl)	**79.24**	32.94	141	**72.30**	33.66	115
Gas ($/mcf)	**8.14**	3.49	133	**6.82**	3.62	88
Combined ($/BOE)	**69.33**	33.09	110	**62.27**	33.61	85
Average benchmark prices						
Oil and NGLs						
WTI Cushing Oklahoma (US$/bbl) (1)	**108.73**	66.09	65	**101.68**	61.94	64
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) (2)	**138.19**	77.28	79	**127.13**	71.94	77
Edmonton Pentane ($/bbl) (3)	**132.12**	79.47	66	**127.26**	76.25	67
Edmonton Butane ($/bbl) (3)	**67.91**	36.86	84	**70.20**	32.12	119
Edmonton Propane ($/bbl) (3)	**53.68**	30.48	76	**55.76**	30.31	84
Edmonton Ethane ($/bbl) (3)	**20.13**	8.50	137	**16.69**	8.33	100
Natural Gas						
NYMEX Henry Hub (US$/MMBtu) (6)	**7.40**	2.79	165	**6.01**	2.73	120
AECO 5A (CA$/MMBtu) (4)	**7.24**	3.09	134	**6.00**	3.12	92
Chicago Alliance, into Interstates (CA$/MMBtu) (5)	**9.14**	3.40	169	**7.36**	5.82	26
Dawn (CA$/MMBtu) (5)	**9.22**	3.43	169	**7.42**	3.60	106
Malin (CA$/MMBtu) (5)	**9.03**	3.52	157	**7.43**	3.78	97
Sumas (CA$/MMBtu) (5)	**8.77**	3.44	155	**7.21**	3.94	83
Station 2 (CA$/MMBtu) (7)	**6.78**	3.00	126	**5.75**	3.03	90
Average exchange rate (CA$/US$) (8)	**1.2766**	1.2280	4	**1.2714**	1.2473	2

(1) Source: U.S Energy Information Administration, Canadian dollar equivalent price WTI price ("CA$WTI") is calculated based on the monthly average US dollar WTI price and the monthly average CA$/US$ exchange rate (7).

(2) Source: Tidal Energy Marketing.

(3) Source: Sproule Associates Limited.

(4) Source: Canadian Gas Price Reporter converted to CA$/MMBtu using monthly average CA$/US$ exchange rate (7).

(5) Source: S&P Global Platts (US$/MMBtu) Daily Midpoint Average converted to CA$/MMBtu using monthly average CA$/US$ exchange rate (7).

(6) Source: S&P Global Platts (US$/MMBtu) Daily Midpoint Average

(7) Source: S&P Global Platts (CA$/GJ) Daily Midpoint Average converted to CA$/MMBtu

(8) Source: Bank of Canada.

(9) “Oil” includes crude oil and field condensate

(10) Net realized prices are calculated based on Petroleum and Natural Gas Sales, less the cost of purchases of third-party volumes and reflect Kelt’s realized commodity prices plus the net benefit of oil blending and natural gas marketing activities. Net realized prices exclude both realized and unrealized gains and losses on risk management contracts. Refer to additional information under the heading of “Non-GAAP and Other Financial Measures”.

Combined Net Realized Price

Kelt’s combined net realized price increased 110% to $69.33 per BOE in the second quarter of 2022 and increased 85% to $62.27 per BOE in the six months ending June 30, 2022 versus the comparable periods in 2021. The increase in the average realized price was primarily due to an increase in benchmark commodity prices in 2022.

Oil prices

WTI crude oil prices increased 65% for the quarter ended June 30, 2022 and increased 64% for the six months ended June 30, 2022 versus the comparable periods in 2021. The increase in crude oil prices was primarily due to global sanctions on Russian exports and imports as a result of the conflict in Ukraine, reduced capital directed towards production growth and major energy projects, and a significant reduction of global crude inventories as countries exited COVID-19 pandemic lockdowns. This was offset by a reduction in OPEC+ curtailments resulting in higher OPEC+ crude oil supplies, a release of the US Strategic Petroleum Reserves, and continued COVID-19 lockdowns in China.

NGL prices

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

For the three months and six months ended June 30, 2022, realized NGLs price increased 141% and 115%, respectively, as compared to the same period in 2021 primarily due to an increase in benchmark WTI prices and regional improvements in NGLs prices.

Natural gas prices

Realized natural gas price increased by 133% to $8.14 per MCF in the second quarter of 2022 compared to the second quarter of 2021. Canadian natural gas benchmark prices increased in 2022 compared to 2021 due to a combination of increased Alberta and North American natural gas demand and higher pipeline and LNG exports when compared to historical five-year averages. In the first six months of 2022, 26% of natural gas sales were outside of AECO 5A and Station 2 indices compared to 35% in the comparable period. In 2022, Kelt received a premium for its natural gas volumes sold outside of AECO 5A and Station 2.

RISK MANAGEMENT AND HEDGING ACTIVITIES

The Company may use fixed price contracts and derivative financial instruments for commodity prices, currency exchange and interest rates 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. Realized losses for the six months ended June 30, 2022 were a result of an increase in oil and natural gas benchmark prices in 2022 in comparison to contracted prices. Based on strip prices at June 30, 2022, the fair value of derivative financial instruments on the Company’s balance sheet is in a net asset position of $7.3 million.

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Realized loss	**(27,309)**	(2,854)	857	**(39,968)**	(4,713)	748
Unrealized gain (loss)	**31,030**	(4,594)	775	**3,044**	(7,539)	140
Gain (loss) on derivative financial instruments	**3,721**	(7,448)	150	**(36,924)**	(12,252)	201
$ per BOE	**1.47**	(4.18)	135	**(7.40)**	(3.52)	110

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 from changes in commodity prices. Commodity prices are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and US dollar.

As at August 4, 2022, the following commodity price risk management contracts are outstanding:

Natural gas derivative contracts

Contract Type [2]	Notional Volume	Contract Price $/MMBtu		Remaining Term
NYMEX fixed price swap	45,000 MMBtu/d	CAD$5.58		Jul 22 – Oct 22
NYMEX fixed price swap	10,000 MMBtu/d	CAD$10.15		Nov 22 – Mar 23
NYMEX-AECO basis swap	10,000 MMBtu/d	NYMEX less USD$1.42		Nov 22 – Mar 23
NYMEX-AECO basis swap	10,000 MMBtu/d	NYMEX less USD$1.05		Nov 24 – Oct 25
Costless collars	Notional Volume	Floor Price $/MMBtu	Ceiling Price $/MMBTU	Remaining Term
NYMEX costless collar	10,000 MMBtu/d	CAD$9.00	CAD$16.40	Nov 22 – Mar 23
NYMEX costless collar	10,000 MMBtu/d	CAD$9.00	CAD$18.15	Nov 22 – Mar 23
NYMEX costless collar	10,000 MMBtu/d	CAD$9.50	CAD$17.00	Nov 22 – Mar 23

Crude oil derivative contracts

Contract Type [1][3]	Notional Volume	Contract Price	Remaining Term
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.75/bbl	Jul 22 – Dec 22

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

In addition to the financial derivative contracts above, the Company has the following sales contracts for physical delivery:

Contract Type [1]	Notional Volume	Contract Price	Remaining Term
Natural gas physical delivery contracts			
AECO (physical) fixed price	15,000 GJ/d	CAD$5.94/GJ	Jul 22
AECO (physical) fixed price	15,000 GJ/d	CAD$6.18/GJ	Aug 22
AECO (physical) fixed price	7,500 GJ/d	CAD$6.55/GJ	Sep 22
AESO power pool fixed heat factor	7,458 GJ/d	Floating AESO Power Pool Price (CAD/MWh)/Fixed Heat Rate of 16.95 GJ/MWh	Nov 22 – Mar 23

(1) Alberta Electric System Operator ("AESO")

Interest rate risk

The Company's Credit Facility is subject to a floating interest rate and is exposed to interest rate risk. As of August 4, 2022, the Company has no bank debt and no interest rate risk management contracts outstanding.

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure from certain U.S. dollar denominated natural gas marketing arrangements. As of August 4, 2022, there are no foreign exchange risk management contracts outstanding.

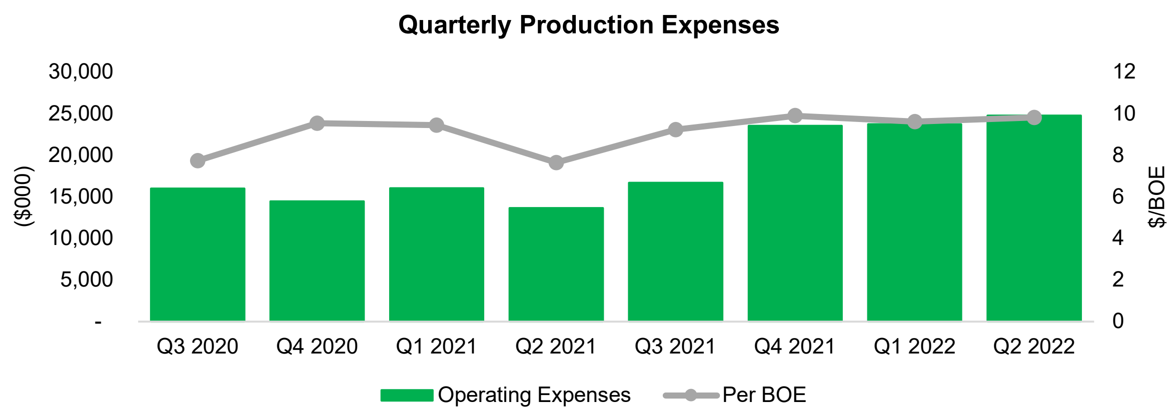
ROYALTIES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Royalties	**18,152**	4,999	263	**33,006**	9,576	245
Average royalty rate (1)	**10.4%**	8.5%	22	**10.6%**	8.2%	29
$ per BOE	**7.20**	2.80	157	**6.62**	2.75	141

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

Kelt's average royalty rate was 10.4% during the second quarter of 2022, compared to 8.5% during the second quarter of 2021 and 10.6% for the six months ending June 30, 2022 versus 8.2% in the same period in 2021. A significant portion of the Company's production in Alberta and British Columbia is new and subject to low initial royalty rates of 5%, prior to any additional credits. However, following the low initial royalty period, the Company's production is subject to royalty rates that are sensitive to market commodity prices and have increased in 2022.

PRODUCTION EXPENSES

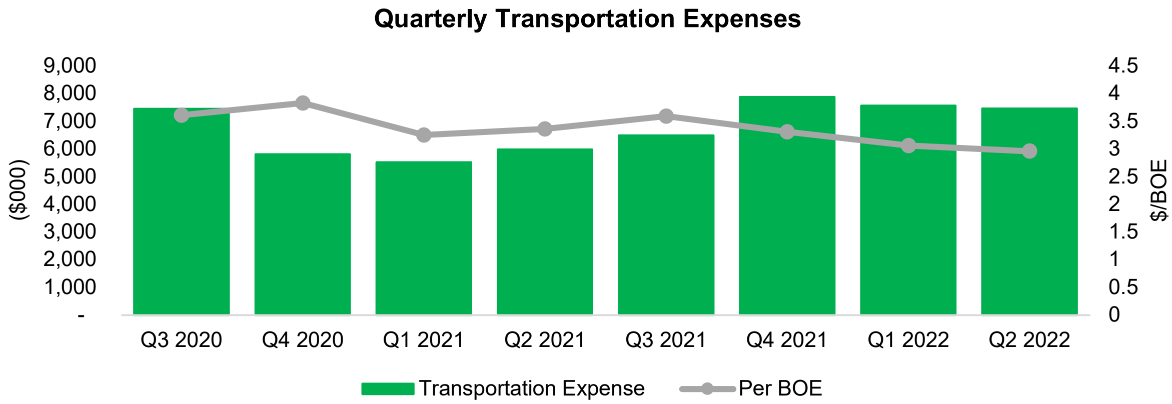


	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Production expense	**24,765**	13,639	82	**48,495**	29,685	63
$ per BOE	**9.82**	7.65	28	**9.72**	8.53	14

Production expense was $24.8 million during the second quarter of 2022 compared to $13.6 million in the comparative quarter. Production expenses averaged $9.82 per BOE during the second quarter of 2022, compared to $7.65 per BOE in the same period in 2021.

Production expense was $48.5 million during the first six months of 2022, an increase from $29.7 million during the six months ended June 30, 2021. Production expenses averaged $9.72 per BOE during the six months ending June 30, 2022, up from $8.53 per BOE for the six months ending June 30, 2021. Production expense per BOE increased by 28% and 14% for the three and six month periods ended June 30, 2022, respectively. The increase was primarily related to non-recurring operating expense credits from third party facilities of $2.0 million received in the second quarter of 2021.

TRANSPORTATION EXPENSES



	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Transportation expense (1)	**7,461**	5,985	25	**15,019**	11,500	31
$ per BOE	**2.96**	3.36	-12	**3.01**	3.30	-9

(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 were $2.96 per BOE during the second quarter of 2022, a decrease of 12% from $3.36 per BOE in the second quarter of 2021 and $3.01 per BOE in the six months ending June 30, 2022, a decrease of 9% from $3.30 per BOE in the same period in 2021. The decrease in transportation expense is due to Kelt proportionally increasing its exposure to AECO 5A and Station 2 indices in 2022, in-line with its production growth, resulting in lower transportation tolls per BOE.

FINANCING EXPENSES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Interest expense	**314**	69	355	**614**	113	443
Accretion of decommissioning obligations	**602**	565	7	**1,069**	908	18
Financing expense	**916**	634	44	**1,683**	1,021	65
Interest expense per BOE (1)	**0.12**	0.04	200	**0.12**	0.03	300
Average interest rates						
Bank debt (2)	**4.9%**	NA	-	**4.6%**	NA	-

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

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

Throughout the first six months of 2022, the Company drew on its credit facility periodically, resulting in interest expense of $0.6 million. As at June 30, 2022, there were no amounts drawn on Kelt's credit facility.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Salaries and benefits	**2,708**	2,047	32	**5,621**	4,274	32
Other G&A expenses	**1,381**	887	56	**2,900**	1,827	59
Gross G&A expenses	**4,089**	2,934	39	**8,521**	6,101	40
Overhead recoveries	**(1,951)**	(1,009)	93	**(3,819)**	(1,675)	128
Net G&A expenses	**2,138**	1,925	11	**4,702**	4,426	6
Gross G&A ($ per BOE)	**1.62**	1.65	-2	**1.71**	1.75	-2
Net G&A ($ per BOE)	**0.85**	1.08	-21	**0.94**	1.27	-26

Net G&A expenses averaged $0.85 per BOE during the second quarter of 2022, a decrease of 21% compared to $1.08 per BOE during the second quarter of 2021. For the six months ended June 30, 2022, net G&A expenses averaged $0.94 per BOE which decreased by 26% compared to $1.27 per BOE during same period in 2021. The decrease in net G&A expenses per BOE was primarily due to higher overhead recoveries as a result of an increase in capital spend, and Kelt's production increasing at a higher rate than G&A expense.

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)	**2022**	2021	%	**2022**	2021	%
Stock options	**1,623**	898	81	**2,512**	1,407	79
Restricted share units ("RSUs")	**284**	387	-27	**499**	625	-20
Total SBC expense	**1,907**	1,285	48	**3,011**	2,032	48
$ per BOE	**0.76**	0.72	6	**0.60**	0.58	3

The increase in SBC expense during the three and six months ended June 30, 2022 compared to the same quarter in 2021 is primarily due to the higher Black-Scholes value associated with recent stock option granted in March 2022.

As at June 30, 2022, stock options and RSUs outstanding represent 6.3% of total shares outstanding (December 31, 2021 – 6.0%).

DEPLETION, DEPRECIATION AND IMPAIRMENT (REVERSAL)

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Depletion and depreciation	**29,750**	21,733	37	**59,145**	41,752	42
Impairment (reversal)	**-**	(70,130)	-100	**-**	(70,130)	-100
Total	**29,750**	(48,397)	-161	**59,145**	(28,378)	-308
Depletion and depreciation ($/BOE)	**11.80**	12.19	-3	**11.86**	12.00	-1
Impairment (reversal) ($/BOE)	**-**	(39.34)	-100	**-**	(20.15)	-100

Depletion and depreciation expense of $29.8 million for the quarter ended June 30, 2022 increased by 37% from $21.7 million in the comparable period in 2021. Depletion and depreciation expense of $59.1 million for the six months ended June 30, 2022 increased by 42% from $41.8 million in comparable period in 2021. The increase was primarily due to an increase in production. On a per BOE basis, the depletion and depreciation expense is consistent with the same periods in 2021.

As at June 30, 2022, the Company concluded that there were no indicators of impairment as compared to December 31, 2021 therefore an impairment test was not conducted.

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

INCOME TAXES

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Deferred income tax expense	**22,811**	16,907	35	**27,066**	17,450	55
Net income before taxes	**93,522**	71,561	31	**108,497**	74,958	45
Effective tax recovery rate	**24.4%**	23.6%	3	**24.9%**	23.3%	7

Kelt's consolidated combined federal and provincial statutory tax rate averaged 24.3% and 23.0% during the three months ended June 30, 2022 and 2021, respectively.

The Company's consolidated tax pools are estimated to be approximately $780.3 million as of June 30, 2022, an increase of 1% from December 31, 2021 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**June 30 2022**	December 31 2021	% change
Canadian oil and gas property expenses (COGPE)	10-15%	**69,609**	73,107	-5
Canadian development expenses (CDE)	30-45%	**189,443**	125,246	51
Canadian exploration expenses (CEE)	100%	**11,379**	22,538	-50
Undepreciated capital cost (1) (UCC)	25-37.5%	**226,841**	196,613	15
Share and debt issue costs (SIC/DIC)	5 years	**125**	240	-48
Non-capital losses (2) (NCL)	100%	**282,935**	356,439	-21
Estimated tax deductions available, end of period		**780,332**	774,183	1

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

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

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income and adjusted funds from operations generated during the three and six month periods ended June 30, 2022 and 2021, respectively.

THREE MONTHS ENDED JUNE 30TH	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Petroleum and natural gas sales	**178,938**	60,644	195	**70.96**	34.02	109
Cost of purchases	**(4,121)**	(1,661)	148	**(1.63)**	(0.93)	75
Realized loss on financial instruments (1)	**(27,309)**	(2,854)	857	**(10.83)**	(1.60)	577
Royalties	**(18,152)**	(4,999)	263	**(7.20)**	(2.80)	157
Revenue, after royalties and financial instruments	**129,356**	51,130	153	**51.30**	28.69	79
Production expense	**(24,765)**	(13,639)	82	**(9.82)**	(7.65)	28
Transportation expense	**(7,461)**	(5,985)	25	**(2.96)**	(3.36)	-12
Operating netback (2)	**97,130**	31,506	208	**38.52**	17.68	118
Financing expense (3)	**(314)**	(69)	355	**(0.12)**	(0.04)	200
G&A expense	**(2,138)**	(1,925)	11	**(0.85)**	(1.08)	-21
Realized gain (loss) on foreign exchange	**89**	(124)	-172	**0.03**	(0.07)	-143
Other income	**16**	64	-75	**0.01**	0.04	-75
Adjusted funds from operations (2)	**94,783**	29,452	222	**37.59**	16.53	127
Basic ($ per common share) (4)	**0.50**	0.16	213			
Diluted ($ per common share) (4)	**0.48**	0.15	220			
Common shares outstanding (000s):						
Basic, weighted average	**191,174**	188,634	1			
Diluted, weighted average	**195,848**	190,491	3			

SIX MONTHS ENDED JUNE 30TH	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Petroleum and natural gas sales	**317,384**	120,479	163	**63.61**	34.61	84
Cost of purchases	**(6,669)**	(3,495)	91	**(1.34)**	(1.00)	34
Realized loss on financial instruments (1)	**(39,968)**	(4,713)	748	**(8.01)**	(1.35)	493
Royalties	**(33,006)**	(9,576)	245	**(6.62)**	(2.75)	141
Revenue, after royalties and financial instruments	**237,741**	102,695	132	**47.64**	29.51	61
Production expense	**(48,495)**	(29,685)	63	**(9.72)**	(8.53)	14
Transportation expense	**(15,019)**	(11,500)	31	**(3.01)**	(3.30)	-9
Operating netback (2)	**174,227**	61,510	183	**34.91**	17.68	97
Financing expense (3)	**(614)**	(113)	443	**(0.12)**	(0.03)	300
G&A expense	**(4,702)**	(4,426)	6	**(0.94)**	(1.27)	-26
Realized gain (loss) on foreign exchange	**18**	(178)	-110	**-**	(0.05)	-100
Other income/expense	**23**	110	-79	**-**	0.03	-100
Adjusted funds from operations (2)	**168,952**	56,903	197	**33.85**	16.36	107
Basic ($ per common share) (4)	**0.89**	0.30	197			
Diluted ($ per common share) (4)	**0.87**	0.30	190			
Common shares outstanding (000s):						
Basic, weighted average	**190,284**	188,610	1			
Diluted, weighted average	**194,576**	190,223	2			

(1) Includes realized gains (losses) on commodity price.

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

(3) Excludes non-cash accretion of decommissioning obligation.

(4) Adjusted funds from operations (3) per common share is calculated on a consistent basis with net income (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, 2022, adjusted funds from operations of $94.8 million ($0.48 per share, diluted) increased by 222% from $29.5 million ($0.15 per share, diluted) during the second quarter ended June 30, 2021. The increase in adjusted funds from operations is primarily attributed to a 195% increase in petroleum and natural gas sales.

During the six months ended June 30, 2022, adjusted funds from operations of $169.0 million ($0.87 per share, diluted) increased by 197% from $56.9 million ($0.30 per share, diluted) during the six months ended June 30, 2021. The increase in adjusted funds from operations is primarily attributed to a 163% increase in petroleum and natural gas sales.

NET INCOME AND COMPREHENSIVE NET INCOME

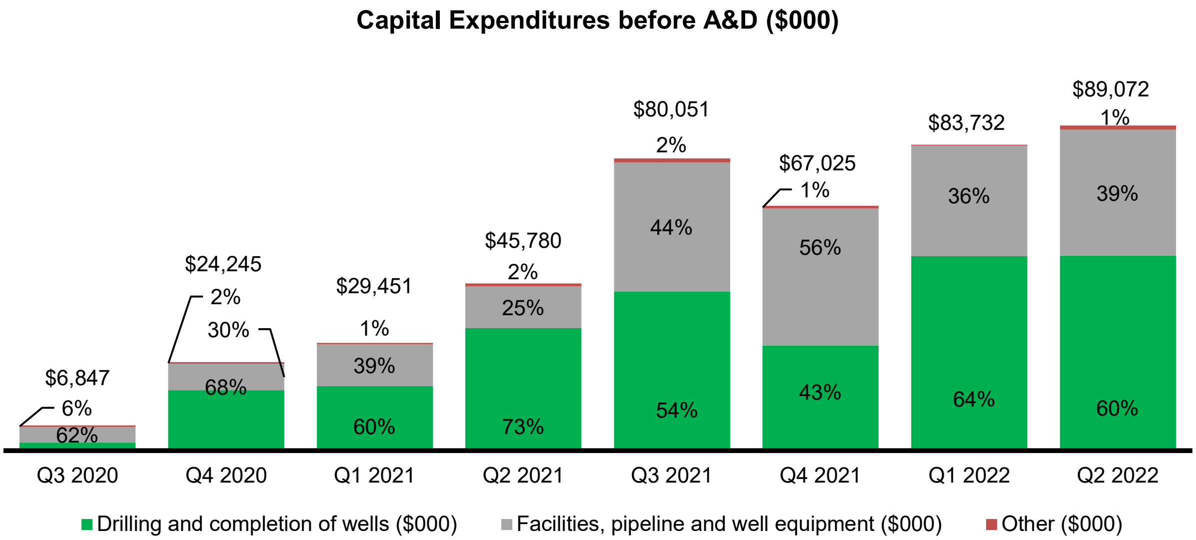
	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Net income and comprehensive net income	**70,711**	54,654	29	**81,431**	57,508	42
$ per common share, basic	**0.37**	0.29	28	**0.43**	0.30	43
$ per common share, diluted [1]	**0.36**	0.29	24	**0.42**	0.30	40
$ per BOE	**28.05**	30.66	-9	**16.31**	16.53	-1
Wtd avg. shares outstanding, basic (000s)	**191,174**	188,634	1	**190,284**	188,610	1
Wtd avg. shares outstanding, diluted (000s) [1]	**195,848**	190,491	3	**194,576**	190,223	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 net income per common share.

Kelt reported a net income of $70.7 million ($0.36 per common share, diluted) for the three months ended June 30, 2022, compared to net income of $54.7 million ($0.29 per common share, diluted) in the comparative period of 2021. Kelt reported a net income of $81.4 million ($0.42 per common share, diluted) for the six months ended June 30, 2022, compared to a net income of $57.5 million ($0.30 per common share, diluted) in the same period of 2021. The increase in net income is driven by higher petroleum and natural gas sales in 2022. 2021 net income included an impairment reversal of $54.0 million (after-tax).

INVESTING ACTIVITIES

CAPITAL EXPENDITURES



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

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	**2022**	2021	%	**2022**	2021	%
Capital expenditures:						
Lease acquisition and retention	**612**	446	37	**745**	723	3
Geological and geophysical	**-**	9	-100	**34**	39	-13
Drilling and completion of wells	**53,400**	33,507	59	**106,622**	51,183	108
Facilities, pipeline and well equipment	**34,469**	11,492	200	**64,794**	22,897	183
Corporate assets	**591**	326	81	**609**	389	57
Capital expenditures, before A&D (1)	**89,072**	45,780	95	**172,804**	75,231	130
Property acquisitions	**-**	22	-100	**2**	17	-88
Property dispositions	**-**	(16)	-100	**(41)**	(16)	156
Capital expenditures, net of A&D (1)	**89,072**	45,786	95	**172,765**	75,232	130

Capital expenditures, before A&D, increased 95% in the second quarter of 2022 compared to the same quarter in 2021 and increased 130% from the six months ending June 30, 2022 versus the comparable period in 2021.

In the second quarter of 2022, drilling and completion costs of $53.4 million included the drilling of 8.0 net wells and the completion of 9.0 net wells in Alberta. For the six months ended June 30, 2022, drilling and completion costs of $106.6 million included the drilling of 15.8 net wells and the completion of 17.5 net wells in Alberta. Kelt's facility, pipeline and well equipment expenditures were $34.5 million in the second quarter of 2022, and $64.8 million for the six months ended June 30, 2022, focused on well equipment, pipeline construction and facility optimization work.

DRILLING

	Three months ended June 30			Six months ended June 30		
Net wells	**2022**	2021	%	**2022**	2021	**%**
Drilling	**8.0**	7.0	14	**15.8**	13.0	22
Completion	**9.0**	7.0	29	**17.5**	9.0	94

CAPITAL RESOURCES AND LIQUIDITY

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

As of June 30, 2022 the Company had a $100.0 million demand and revolving term facility ("the Credit Facility") with a syndicate of financial institutions. The Credit Facility, which is subject to semi-annual redeterminations, may be extended annually at Kelt's option, subject to lender approval, with a 364 day term-out period if not renewed. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. 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 $800 million demand debenture with a floating charge over all the Company's assets.

CA$ thousands, unless otherwise indicated)	**June 30, 2022**	December 31, 2021
Bank debt	**-**	1,150
Accounts payable and accrued liabilities	**105,285**	72,453
Cash and cash equivalents	**(9,209)**	(719)
Accounts receivable and accrued sales	**(68,988)**	(42,584)
Prepaid expenses and deposits	**(3,971)**	(2,080)
Net debt (surplus) (1)	**23,117**	28,220
Annualized quarterly adjusted funds from operations (1)(2)	**379,132**	272,620
Net debt (surplus) to annualized quarterly adjusted funds from operations ratio (1)	**0.1**	0.1

(1) Refer to advisories regarding Capital Management Measures.

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

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

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

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at June 30, 2022:

(CA$ thousands, unless otherwise indicated)	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	105,285	-	-	**105,285**
Derivative financial instruments	9,254	-	-	**9,254**
Lease liability	600	208	-	**808**
Total	**115,139**	**208**	**-**	**115,347**

COMMITMENTS

As of June 30, 2022, the Company is committed to future payments under the following agreements:

(CA$ thousands, unless otherwise indicated)	2022	2023	2024	2025	2026	Thereafter
Firm processing commitments	8,241	16,862	17,151	15,048	14,797	43,014
Firm transportation commitments	13,589	24,701	21,696	18,158	16,146	22,395
Total annual commitments	**21,830**	**41,563**	**38,847**	**33,206**	**30,943**	**65,409**

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, 2022 there were 191.7 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 2022, 33.8 million common shares traded on the TSX at a weighted average price of $6.86 per common share compared to the volume weighted average trading price of $3.20 per common share during the year ended December 31, 2021.

As at June 30, 2022, officers, directors, and employees have been granted options to purchase 11.1 million common shares of the Company at an average exercise price of $3.81 per common share. In addition, there are 0.9 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 9 of the interim financial statements.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended June 30, 2022 and 2021.

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 2022**	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Petroleum and natural gas sales	**178,938**	138,446	120,523	75,761	60,644	59,835	41,961	48,823
Cash provided by (used in) operating activities	**91,623**	65,553	52,056	46,547	34,529	26,582	3,288	(8,610)
Adjusted funds from operations (1)	**94,783**	74,169	68,155	36,336	29,452	27,451	10,758	9,002
Per share – basic ($/common share) (1)	**0.50**	0.39	0.36	0.19	0.16	0.15	0.06	0.05
Per share – diluted ($/common share) (1)	**0.48**	0.38	0.35	0.19	0.15	0.14	0.06	0.05
Net income (loss) and comprehensive income (loss)	**70,711**	10,720	52,996	3,752	54,654	2,854	26,018	(24,080)
Per share – basic ($/common share)	**0.37**	0.06	0.28	0.02	0.29	0.02	0.14	(0.13)
Per share – diluted ($/common share)	**0.36**	0.06	0.28	0.02	0.29	0.02	0.14	(0.13)
Capital expenditures, net of A&D (1)	**89,072**	83,693	67,118	71,162	45,786	29,446	24,470	(497,321)
Total assets	**1,035,372**	967,119	913,497	872,212	842,454	775,033	759,987	824,751
Bank debt	**-**	-	1,150	-	-	-	-	-
Net debt (surplus) (1)	**23,117**	34,685	28,220	28,174	(6,696)	(24,303)	(27,655)	(132,263)
Convertible debentures	**-**	-	-	-	-	-	-	89,910
Shareholders' equity	**818,734**	739,673	722,724	668,561	663,284	607,285	603,684	576,862
Average daily production (BOE/d)	**27,713**	27,413	25,815	19,621	19,592	18,860	16,476	22,443
Combined net realized price ($/BOE) (1)(2)	**58.50**	49.96	47.39	38.33	31.49	33.07	23.90	19.31
Operating netback ($/BOE) (1)	**38.52**	31.26	30.00	21.10	17.68	17.67	8.40	7.02
Operating netback % of combined net realized price (2)	**66%**	63%	63%	55%	56%	53%	35%	36%

(1) Refer to advisories regarding *"Non-GAAP and Other Financial Measures"*.
(2) In this table, combined net realized prices are after financial instruments.

In 2020, the COVID-19 pandemic resulted in an unprecedented reduction in global crude oil demand causing benchmark crude oil prices to decline. This resulted in lower petroleum and natural gas sales in 2020, which in turn reduced adjusted funds from operations and net income (loss).

Crude oil prices reached a bottom in the second quarter of 2020, with negative WTI benchmark prices occurring in April 2020. Positive vaccine development, along with significant production curtailments from OPEC+ and non-OPEC nations, resulted in a re-bound in crude oil prices at the end of 2020. Throughout 2021 and into 2022 global crude oil prices steadily increased due to increasing demand, OPEC+ production curtailments, and low levels of capital investment in both OPEC+ non-OPEC nations. In the first quarter of 2022, the Russian and Ukrainian conflict resulted in further volatility of crude prices.

The average benchmark North American natural gas prices increased in 2022 due record LNG exports in 2022, inventory levels remaining below average storage levels and higher than average North American demand.

On August 21, 2020, Kelt completed the Inga Asset Disposition for consideration of $503.9 million after closing adjustments. This resulted in a reduction of Kelt's production and total assets subsequent to the transaction, along with a full repayment of the Company's outstanding bank debt and the redemption of all outstanding convertible debentures. Prior to the sale, the Inga Assets produced approximately 14,000 BOE per day.

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

OUTLOOK AND GUIDANCE

As of the date of this MD&A, management has updated its 2022 guidance from May 5, 2022, and the press release dated July 6, 2022, to incorporate revised commodity price assumptions and second quarter results.

Forecasted average production in 2022 is estimated to be in the range from 30,000 to 31,000 BOE per day, compared to 31,000 BOE per day in the previous guidance. Average estimated production is weighted within a range of 35% to 36% to oil/NGLs versus 37% with the previous guidance.

WTI crude oil prices are forecasted to average US$95.00 per barrel in 2022, up 6% from the average forecasted price of US$90.00 per barrel in the Company's previous guidance. Forecasted NYMEX natural gas prices have been revised upwards by 12% to average $6.00 per $US/MMBtu. The average exchange rate has decreased by 2% to US$/CA$ 0.7812. After the changes in commodity price assumptions, adjusted funds from operations for 2022 was revised upwards by 3% to $350.0 million.

Capital Expenditures, net of A&D at December 31, 2022 is estimated to be $300.0 million, an increase of $35.0 million from $265.0 million in the previous guidance. The Company estimates a net surplus at December 31, 2022 to be $25.0 million, a decrease of $25.0 million from a $50.0 million net surplus in the previous guidance.

The table below outlines the Company's updated forecast for 2022 with a comparison to the previously announced guidance included in Kelt's press release dated May 4, 2022:

(CA$ millions, except as otherwise indicated)	**Current 2022 Budget**	**Previous 2022 Guidance (May 5, 2022)**	**% Change to Current 2022 Budget**
Average Production			
Oil and NGLs (bbls/d)	**10,500 – 11,050**	11,580	-9 to -5
Gas (mmcf/d)	**117.0 – 119.7**	117	0 to 3
Combined (BOE/d)	**30,000 – 31,000**	31,000	-3 to 0
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**95.00**	90.00	6
Canadian Light Sweet ($/bbl)	**117.88**	109.45	8
NYMEX natural gas price (US$/MMBTU)	**6.00**	5.35	12
AECO natural gas price (US$/MMBTU)	**4.45**	3.95	13
Average Exchange Rate (US$/CA$)	**0.7812**	0.7968	-2
Capital Expenditures			
Drilling & completions	**193.0**	179.0	8
Equipment, Facilities & Pipeline Infrastructure	**98.0**	72.0	36
Land, Seismic & Asset Acquisitions, net of Property Dispositions	**9.0**	14.0	-36
Capital Expenditures, net of A&D (1)	**300.0**	265.0	13
Petroleum and natural gas sales	**653.0**	608.2	7
Adjusted funds from operations (1)	**350.0**	340.0	3
Per common share, diluted (1)	**1.79**	1.74	3
Net debt (surplus), at year end (1)	**(25.0)**	(50.0)	50
Weighted average common shares outstanding (millions) (1)	**191.0**	190.7	-

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

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

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2022. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 3 of the December 31, 2021 consolidated annual financial statements.

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

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no changes to the Company's internal controls over financial reporting during the interim period from April 1, 2022 to June 30, 2022 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 AND OTHER FINANCIAL MEASURES

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

NON-GAAP FINANICAL MEASURES

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

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

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

Net realized price

Net realized price is a non-GAAP measure and is calculated by dividing the Company’s P&NG sales after cost or purchases by the Company’s production and reflects Kelt’s realized selling prices plus the net benefit of oil blending/marketing activities. In addition to using its own production, the Company may purchase butane and crude oil from fourth parties for use in its blending operations, with the objective of selling the blended oil product at a premium. Marketing revenue from the sale of third-party volumes is included in P&NG sales as reported in the Consolidated Statement of Net Income (Loss) and Comprehensive Income (Loss) in accordance with GAAP. Given the Company’s per unit operating statistics disclosed throughout this MD&A are calculated based on Kelt’s production volumes, and excludes the sale of third party marketing volumes, management believes that disclosing its net realized prices based on P&NG sales after cost of purchases is more appropriate and useful, because the cost of third-party volumes purchased to generate the incremental marketing revenue has been deducted. Net realized prices referenced throughout this MD&A are before financial instruments, except as otherwise indicated as being after financial instruments.

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

Operating netback

Operating netback is a non-GAAP measure calculated by deducting royalties, production expenses and transportation expenses from petroleum and natural gas sales, net of the cost of purchases and after realized gains or losses on associated financial instruments. The Company also presents operating netbacks on a per boe basis which allows management to better analyze performance against prior periods, on a comparable basis, and is a key industry performance measure of operational efficiency.

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

Capital Expenditures

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

(CA$ thousands, except as otherwise indicated)	Three months ended June 30 2022	2021	Six months ended June 30 2022	2021
Cash provided by investing activities	**90,939**	35,743	**158,698**	59,856
Change in non-cash investing working capital	**(1,867)**	10,042	**14,067**	15,375
Capital expenditures, net of A&D	**89,072**	45,785	**172,765**	75,231
Property acquisitions	**-**	(21)	**(2)**	(16)
Property dispositions	**-**	16	**41**	16
Capital expenditures, before A&D	**89,072**	45,780	**172,804**	75,231

CAPITAL MANAGEMENT MEASURES

Adjusted funds from operations and annualized quarterly adjusted funds from operations

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

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

	Three months ended			Six months ended	
(CA$ thousands, except as otherwise indicated)	**June 30, 2022**	June 30, 2021	December 31, 2021	**June 30, 2022**	June 30, 2021
Cash provided by operating activities	**91,623**	34,529	52,056	**157,176**	61,111
Change in non-cash working capital	**2,792**	(6,237)	15,058	**9,530**	(6,549)
Funds from operations	**94,415**	28,292	67,114	**166,706**	54,562
Settlement of decommissioning obligations	**368**	1,160	1,041	**2,246**	2,341
Adjusted funds from operations	**94,783**	29,452	68,155	**168,952**	56,903
Annualized quarterly adjusted funds from operations	**379,132**	117,808	272,620		

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

Management considers net debt (surplus) and a net debt (surplus) to annualized quarterly adjusted funds from operations ratio as key capital management measures to assess the Company's liquidity at a point in time and to monitor its capital structure and short-term financing requirements. The "net debt (surplus) to annualized quarterly adjusted funds from operations ratio" is also indicative of the "net debt (surplus) to cash flow ratio" calculation used to determine the applicable margin for a quarter under the Company's Credit Facility agreement (though the calculation may not always be a precise match, it is representative).

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

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

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, 2021, dated March 10, 2022.

Kelt is monitoring the impact of the 2021 Supreme Court of British Columbia judgement (the "Judgment") with respect to a claim brought forth by the Blueberry River First Nation ("Blueberry") against the province of British Columbia regarding the cumulative impact of industrial development within the Blueberry treaty claim area. The Judgement found that the Province of British Columbia breached the Treaty 8 rights of the Blueberry by allowing extensive industrial development on the Blueberry's traditional territory without first assessing the cumulative impacts of this development on the ability of the members of the Blueberry to exercise their Treaty 8 rights to hunt, fish, and trap on their traditional territory. The Judgement calls for the province of British Columbia to pause development in the Blueberry traditional area pending the results of an investigation into the cumulative impacts of industrial development in the Blueberry's traditional territory.

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

On May 19, 2022 the Province of British Columbia announced a new oil and natural gas royalty framework which includes a capital recovery concept for drill and complete costs and a removal previous incentive programs for deep wells and marginal wells. The new framework will be in place for September 2024. During the transition period new wells will pay 5% royalties for a 12 month period after which royalties will be calculated using the prevailing rates. Existing wells will operate under the existing royalty framework until September 2024. Additional details of the new royalty framework are required for Kelt to quantify the potential impact on future crown royalties. The Province of British Columbia is expected release additional details of the new royalty framework prior to September 1, 2022.

Additional information is included in Kelt's Annual Information Form dated March 10, 2022 which can be found at www.sedar.com

Kelt publishes an annual Environmental, Social, and Governance ("ESG") Report, which includes the Company's ESG practices and performance. The latest report, dated February 17, 2022 can be found on the Company's website at www.keltexploration.com. Kelt's ESG report is aligned with the standards set out in the Sustainability Accounting Standards Board, Oil and Gas – Exploration and Production Sustainability Accounting Standard.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2022. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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

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

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

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

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

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 10, 2022 is filed on SEDAR and can be viewed on their website at www.sedar.com. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to Kelt is also available on its website at www.keltexploration.com.

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

(CA$ thousands)	[Notes]	**June 30, 2022**	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		**9,209**	719
Accounts receivable and accrued sales	[10]	**68,988**	42,584
Prepaid expenses, deposits and other		**3,971**	2,080
Derivative financial instruments	[10]	**16,525**	5,338
Total current assets		**98,693**	50,721
Deferred income tax asset		**-**	10,443
Exploration and evaluation assets	[5]	**27,738**	29,529
Property, plant and equipment	[6]	**908,941**	822,804
Total assets		**1,035,372**	913,497
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[10]	**105,285**	72,453
Derivative financial instruments	[10]	**9,254**	1,109
Decommissioning obligations	[8]	**1,106**	2,396
Lease liability		**600**	609
Total current liabilities		**116,245**	76,567
Bank debt	[7]	**-**	1,150
Decommissioning obligations	[8]	**83,564**	112,657
Lease liability		**208**	399
Deferred income tax liability		**16,621**	-
Total liabilities		**216,638**	190,773
SHAREHOLDERS' EQUITY			
Shareholders' capital	[9]	**1,160,621**	1,144,596
Contributed surplus and reserve		**(18,794)**	(17,348)
Deficit		**(323,093)**	(404,524)
Total shareholders' equity		**818,734**	722,724
Total liabilities and shareholders' equity		**1,035,372**	913,497
Commitments	[13]		

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

On behalf of the Board of Directors:

[signed] David J. Wilson, Director

[signed] Neil G. Sinclair, Director

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE NET INCOME
[UNAUDITED]

		Three months ended June 30		Six months ended June 30	
(CA$ thousands, except per share amounts)	[Notes]	**2022**	2021	**2022**	2021
Revenue					
Petroleum and natural gas sales	[11]	**178,938**	60,644	**317,384**	120,479
Royalties		**(18,152)**	(4,999)	**(33,006)**	(9,576)
		160,786	55,645	**284,378**	110,903
Expenses					
Production		**24,765**	13,639	**48,495**	29,685
Transportation		**7,461**	5,985	**15,019**	11,500
Cost of purchases		**4,121**	1,661	**6,669**	3,495
Financing	[12]	**916**	634	**1,683**	1,021
General and administrative		**2,138**	1,925	**4,702**	4,426
Share based compensation	[9]	**1,907**	1,285	**3,011**	2,032
Exploration and evaluation	[5]	**-**	1	**46**	1
Depletion and depreciation	[6]	**29,750**	21,733	**59,145**	41,752
Impairment reversal	[6]	**-**	(70,130)	**-**	(70,130)
		71,058	(23,267)	**138,770**	23,782
Gain (loss) on derivative instruments	[10]	**3,721**	(7,448)	**(36,924)**	(12,252)
Foreign exchange gain (loss)		**57**	(114)	**(14)**	(168)
Gain (loss) on sale of assets		**-**	147	**(196)**	147
Other income		**16**	64	**23**	110
Net income before taxes		**93,522**	71,561	**108,497**	74,958
Deferred income tax expense		**(22,811)**	(16,907)	**(27,066)**	(17,450)
Net income and comprehensive net income		**70,711**	54,654	**81,431**	57,508
Net income per common share					
Basic		**0.37**	0.29	**0.43**	0.30
Diluted		**0.36**	0.29	**0.42**	0.30

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

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

(CA$ thousands)	[Notes]	Shareholders' capital Number of Shares (000s)	 Amount ($ thousands)	Contributed surplus and reserve	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2021		189,164	1,144,596	(17,348)	(404,524)	722,724
Net income and comprehensive income		-	-	-	81,431	81,431
Exercise of stock options	[9]	2,515	16,001	(4,433)	-	11,568
Vesting of restricted share units	[9]	5	24	(24)	-	-
Share based compensation	[9]	-	-	3,011	-	3,011
Balance at June 30, 2022		**191,684**	**1,160,621**	**(18,794)**	**(323,093)**	**818,734**

Balance at December 31, 2020		188,580	1,141,517	(19,053)	(518,780)	603,684
Net income and comprehensive income		-	-	-	57,508	57,508
Exercise of stock options		60	85	(25)	-	60
Vesting of restricted share units	[10]	33	237	(237)	-	-
Share based compensation	[10]	-	-	2,032	-	2,032
Balance at June 30, 2021		**188,673**	**1,141,839**	**(17,283)**	**(461,272)**	**663,284**

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]	**2022**	2021	**2022**	2021
Operating activities					
Net income and comprehensive income		**70,711**	54,654	**81,431**	57,508
Items not affecting cash:					
Accretion	[12]	**602**	565	**1,069**	908
Share based compensation		**1,907**	1,285	**3,011**	2,032
Exploration and evaluation		**-**	1	**46**	1
Depletion and depreciation		**29,750**	21,733	**59,145**	41,752
Impairment reversal		**-**	(70,130)	**-**	(70,130)
Unrealized (gain) loss on derivative financial instruments	[10]	**(31,030)**	4,594	**(3,044)**	7,539
Unrealized (gain) loss on foreign exchange		**32**	(10)	**32**	(10)
(Gain) loss on sale of assets		**-**	(147)	**196**	(147)
Deferred income tax expense		**22,811**	16,907	**27,066**	17,450
Settlement of decommissioning obligations	[8]	**(368)**	(1,160)	**(2,246)**	(2,341)
Change in non-cash operating working capital	[14]	**(2,792)**	6,237	**(9,530)**	6,549
Cash provided by operating activities		**91,623**	34,529	**157,176**	61,111
Financing activities					
Decrease in bank debt		**-**	-	**(1,150)**	-
Proceeds on exercise of stock options	[9]	**6,443**	60	**11,568**	60
Repayment of lease liability principle		**(186)**	(184)	**(374)**	(360)
Cash provided by (used in) financing activities		**6,257**	(124)	**10,044**	(300)
Investing activities					
Exploration and evaluation assets	[5]	**(613)**	(497)	**(863)**	(2,922)
Property, plant and equipment	[6]	**(88,459)**	(45,283)	**(171,941)**	(72,309)
Property acquisitions		**-**	(21)	**(2)**	(16)
Property dispositions		**-**	16	**41**	16
Change in non-cash investing working capital	[14]	**(1,867)**	10,042	**14,067**	15,375
Cash used in investing activities		**(90,939)**	(35,743)	**(158,698)**	(59,856)
Impact of foreign currency on cash balances		**(32)**	10	**(32)**	10
Net change in cash and cash equivalents		**6,909**	(1,328)	**8,490**	965
Cash and cash equivalents, beginning of period		**2,300**	33,863	**719**	31,570
Cash and cash equivalents, end of period		**9,209**	32,535	**9,209**	32,535

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

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

1. DESCRIPTION OF THE BUSINESS

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

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

2. Significant Judgements 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, 2021 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.

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on August 3, 2022 for issue on August 4, 2022.

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, 2021.

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 10 of these financial statements.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2021 consolidated annual financial statements. These condensed consolidated interim financial statements as at June 30, 2022 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, 2021.

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

5. 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, 2022	December 31, 2021
Balance, beginning of period	**29,529**	53,449
Additions	**863**	4,202
Property acquisitions	**-**	242
Property dispositions	**(34)**	(1,427)
Transfers to property, plant and equipment	**(2,574)**	(26,009)
Expired mineral leases	**(46)**	(928)
Balance, end of period	**27,738**	29,529

6. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**June 30, 2022**	December 31, 2021
Development and production ("D&P") assets	**907,178**	821,017
Right-of-use ("ROU") assets	**891**	1,009
Corporate assets	**872**	778
Total net carrying value of property, plant and equipment	**908,941**	822,804

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, 2020	1,251,898	5,238	2,503	1,259,639
Additions	217,018	1,087	289	218,394
Property acquisitions	96	-	-	96
Property dispositions	(21,692)	-	-	(21,692)
Provision	(1,000)	-	-	(1,000)
Change in decommissioning obligations	3,468	-	-	3,468
Transfers from E&E	26,009	-	-	26,009
Balance at December 31, 2021	**1,475,797**	**6,325**	**2,792**	**1,484,914**
Additions	**171,332**	**609**	**174**	**172,115**
Property acquisitions	**2**	**-**	**-**	**2**
Property dispositions	**(203)**	**-**	**-**	**(203)**
Change in decommissioning obligations	**(29,206)**	**-**	**-**	**(29,206)**
Transfers from E&E	**2,574**	**-**	**-**	**2,574**
Balance at June 30, 2022	**1,620,296**	**6,934**	**2,966**	**1,630,196**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2020	645,566	5,047	1,260	651,873
Depletion and depreciation expense	90,228	500	523	91,251
Impairment reversal	(70,130)	-	-	(70,130)
Dispositions	(10,884)	-	-	(10,884)
Balance at December 31, 2021	**654,780**	**5,547**	**1,783**	**662,110**
Depletion and depreciation expense	**58,338**	**515**	**292**	**59,145**
Balance at June 30, 2022	**713,118**	**6,062**	**2,075**	**721,255**

Future capital costs required to develop proved reserves in the amount of $727.8 million (December 31, 2021 – $754.6 million) are included in the depletion calculation for development and production assets.

As at June 30, 2022, the Company concluded that there were no indicators of impairment as compared to December 31, 2021 therefore an impairment test was not conducted.

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

7. BANK DEBT

The Company has a $100.0 million demand and revolving term facility ("the Credit Facility") with a syndicate of financial institutions. As at June 30, 2022, there were no borrowings outstanding under the Credit Facility other than outstanding letters of credit of $2.0 million. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount. The credit facility is subject to semi-annual redeterminations. There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $800.0 million.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on the prime rate plus the applicable margin. The applicable margin ranges from 175 basis points to 575 basis points depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.5 times to greater than five times. Under the Credit Facility, borrowings by bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 2.75% to 6.75%, depending upon the Company's Net Debt to Cash Flow ratio of between less than 0.5 times to greater than five times.

8. 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, 2022	December 31, 2021
Balance, beginning of period	**115,053**	117,060
Obligations incurred	**1,658**	2,395
Obligations acquired	**-**	86
Obligations disposed	**-**	(3,981)
Obligations settled	**(2,246)**	(3,583)
Changes in discount rate	**(39,197)**	(26,279)
Changes in inflation rate	**8,724**	16,569
Revisions to estimates	**(391)**	10,783
Accretion expense	**1,069**	2,003
Balance, end of period	**84,670**	115,053
Decommissioning obligations – current	**1,106**	2,396
Decommissioning obligations – non-current	**83,564**	112,657
Key assumptions		
Risk free rate	**3.1%**	1.7%
Inflation rate	**2.0%**	1.7%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at June 30, 2022 the undiscounted amount of the estimated cash flows required to settle the obligation is $115.3 million (December 31, 2021 – $115.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 2%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $220.3 million at June 30, 2022 (December 31, 2021 – $191.6 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

Accretion of the decommissioning obligation due to the passage of time is presented within financing expenses in the Consolidated Statement of Net Income and Comprehensive Net Income (note 12).

9. 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, 2022 (December 31, 2021 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2020	188,580	1,141,517
Issued on exercise of stock options	291	568
Transfer from contributed surplus on exercise of stock options	-	200
Released upon vesting of restricted share units	293	2,311
Balance at December 31, 2021	**189,164**	**1,144,596**
Issued on exercise of stock options	**2,515**	**11,568**
Transfer from contributed surplus on exercise of stock options	**-**	**4,433**
Released upon vesting of restricted share units	**5**	**24**
Balance at June 30, 2022	**191,684**	**1,160,621**

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 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, 2020	9,967	3.88
Granted	2,642	2.79
Exercised (1)	(291)	1.95
Forfeited	(137)	4.66
Expired	(1,658)	4.72
Balance at December 31, 2021	**10,523**	**3.52**
Granted	**3,433**	**5.38**
Exercised (1)	**(2,515)**	**4.60**
Forfeited	**(237)**	**3.93**
Expired	**(90)**	**7.30**
Balance at June 30, 2022	**11,114**	**3.81**

(1) The weighted average share price on the date stock options were exercised during the period ended June 30, 2022 was $7.01 per common share ($3.87 per common share on average during the year ended December 31, 2021).

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	
	2022	2021
Risk free interest rate	**2.00%**	0.60%
Expected life (years)	**3.5**	3.6
Expected volatility (1)	**76.2%**	79.4%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.8%**	5.3%
Fair value of options granted during the year ($/share)	**2.87**	1.47

(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, 2022:

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	5,471	3.0	2.15	2,547	1.97
$3.51 to $6.50	5,084	3.5	5.20	1,699	5.02
$6.51 to $9.50	559	1.5	7.47	459	7.63
Total	**11,114**	**3.2**	**3.81**	**4,705**	**3.62**

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, 2020	346
Granted	709
Released upon vesting	(293)
Forfeited	(3)
Balance at December 31, 2021	**759**
Granted	**184**
Released upon vesting	**(5)**
Forfeited	**(25)**
Balance at June 30, 2022	**913**

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	
	2022	2021	**2022**	2021
Stock options	**1,623**	898	**2,512**	1,407
Restricted share units	**284**	387	**499**	625
Total share based compensation expense	**1,907**	1,285	**3,011**	2,032

Per share amounts

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

	Three months ended June 30		Six months ended June 30	
(000s of common shares)	**2022**	2021	**2022**	2021
Weighted average common shares outstanding, basic	**191,174**	188,634	**190,284**	188,610
Effect of stock options and RSUs	**4,674**	1,857	**4,292**	1,613
Weighted average common shares outstanding, diluted	**195,848**	190,491	**194,576**	190,223

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 net income per common share. For the quarter ended June 30, 2022, the company included the effect of stock options and RSUs in calculating the diluted net income per common share however, the effect was negligible.

10. 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, and bank debt (when an outstanding balance is drawn on the Credit Facility). The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. Net income, cash flows and the fair value of financial assets and liabilities may fluctuate due to movement in market prices or as a result of the Company’s exposure to credit and liquidity risks.

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

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

Commodity price risk

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

As at June 30, 2022, the following commodity price risk management contracts are outstanding:

Natural gas derivative contracts

Contract Type (2)	Notional Volume	Contract Price $/MMBtu		Remaining Term
NYMEX fixed price swap	45,000 MMBtu/d	CAD$5.58		Jul 22 – Oct 22
NYMEX fixed price swap	10,000 MMBtu/d	CAD$10.15		Nov 22 – Mar 23
NYMEX-AECO basis swap	10,000 MMBtu/d	NYMEX less USD$1.42		Nov 22 – Mar 23
NYMEX-AECO basis swap	10,000 MMBtu/d	NYMEX less USD$1.05		Nov 24 – Oct 25
Costless collars	Notional Volume	Floor Price $/MMBtu	Ceiling Price $/MMBTU	Remaining Term
NYMEX costless collar	10,000 MMBtu/d	CAD$9.00	CAD$16.40	Nov 22 – Mar 23
NYMEX costless collar	10,000 MMBtu/d	CAD$9.00	CAD$18.15	Nov 22 – Mar 23
NYMEX costless collar	10,000 MMBtu/d	CAD$9.50	CAD$17.00	Nov 22 – Mar 23

Crude oil derivative contracts

Contract Type (1)(3)	Notional Volume	Contract Price $/MMBtu	Remaining Term
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.75/bbl	Jul 22– Dec 22

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

Interest rate risk

The Company has historically been exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. As at June 30, 2022, there are no interest rate risk management contracts outstanding.

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure from certain U.S. dollar denominated natural gas marketing arrangements. As at June 30, 2022, there are no foreign exchange risk management contracts outstanding.

Gains and losses on risk management contracts

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

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Realized loss	**(27,309)**	(2,854)	**(39,968)**	(4,713)
Unrealized gain (loss)	**31,030**	(4,594)	**3,044**	(7,539)
Gain (loss) on derivative financial instruments	**3,721**	(7,448)	**(36,924)**	(12,252)

Fair value measurements

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

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

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

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

Credit Risk

As at June 30, 2022, 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, 2022**	December 31, 2021
Joint venture partners	**4,378**	2,789
Oil and gas marketers	**63,571**	38,534
GST input tax credits	**1,884**	1,740
Other	**39**	138
Expected credit loss provision	**(884)**	(617)
Accounts receivable and accrued sales	**68,988**	42,584

During the quarter ended June 30, 2022, sales to five oil and gas marketers accounted for approximately 97% of total sales. During the comparative period ended December 31, 2021, sales to five oil and gas marketers accounted for approximately 96% of total sales. Kelt has mitigated some of its credit risk through the majority of its sales to oil and gas marketers which have been rated investment-grade by an independent ratings agency.

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

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. As of June 30, 2022, the collection risk on outstanding accounts receivable balances is considered low as approximately 1.0% of the accounts receivable balance is outstanding for more than 90 days (December 31, 2021 – 1.0%).

Liquidity Risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities as at June 30, 2022 include accounts payable, derivative financial instruments, lease liabilities and bank debt. The Company manages liquidity risk with its budgeting process which sets out expected debt levels, capital expenditures and funds flow from operations. In addition, risk management contracts such as derivative financial instruments may be used to protect future sales. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements and expected sales.

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

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at June 30, 2022:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	105,285	-	-	**105,285**
Derivative financial instruments	9,254	-	-	**9,254**
Lease liability	600	208	-	**808**
Total	**115,139**	**208**	**-**	**115,347**

Capital Management

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

The Company may increase or decrease capital expenditures including acquisitions and dispositions, issue new shares, issue new debt or repay existing debt, if any, according to market conditions in order to maintain its financial flexibility.

Adjusted funds from operations and annualized quarterly adjusted funds from operations

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

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

	Three months ended June 30, 2022	Three months ended December 31, 2021
Cash provided by operating activities	**91,623**	52,056
Change in non-cash working capital	**2,792**	15,058
Settlement of decommissioning obligations	**368**	1,041
Adjusted funds from operations	**94,783**	68,155
Annualized quarterly adjusted funds from operations	**379,132**	272,620

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

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

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

	June 30, 2022	December 31, 2021
Bank debt	**-**	1,150
Accounts payable and accrued liabilities	**105,285**	72,453
Cash and cash equivalents	**(9,209)**	(719)
Accounts receivable and accrued sales	**(68,988)**	(42,584)
Prepaid expenses and deposits	**(3,971)**	(2,080)
Net debt (surplus)	**23,117**	28,220
Annualized quarterly adjusted funds from operations	**379,132**	272,620
Net debt (surplus) to annualized quarterly adjusted funds from operations ratio	**0.1**	0.1

As more particularly described in note 7, there are no financial covenants under the Credit Facility agreement and Kelt is in compliance with all other covenants.

11. PETROLEUM AND NATURAL GAS SALES

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the six months ended June 30, 2022, transportation costs incurred in relation to these contracts was $5.8 million (June 30, 2021 – $4.9 million).

Kelt has a number of variable priced long-term commodity sales contracts where the volumes under these contracts for future periods have not yet been fulfilled resulting in unsatisfied performance obligations as at the reporting date. These contracts have varying durations, with the longest individual commodity sales contract ending in March 2042.

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

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Oil production	**59,777**	25,237	**121,748**	49,089
Oil treating and other	**115**	125	**315**	312
NGLs production	**34,674**	8,789	**57,746**	19,368
Gas production	**79,851**	24,487	**130,294**	47,547
Gas processing and other	**287**	285	**499**	526
Marketing revenue	**4,234**	1,721	**6,782**	3,637
Total petroleum and natural gas sales	**178,938**	60,644	**317,384**	120,479

Included in accounts receivable at June 30, 2022 is $63.6 million (December 31, 2021 – $38.5 million) of accrued oil and gas sales related to June 2022 production.

12. FINANCING EXPENSES

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Interest expense	**314**	69	**614**	113
Accretion of decommissioning obligations	**602**	565	**1,069**	908
Financing expense	**916**	634	**1,683**	1,021

13. COMMITMENTS

As of June 30, 2022, the Company is committed to future payments under the following agreements:

	2022	2023	2024	2025	2026	Thereafter
Firm processing commitments	8,241	16,862	17,151	15,048	14,797	43,014
Firm transportation commitments	13,589	24,701	21,696	18,158	16,146	22,395
Total annual commitments	**21,830**	**41,563**	**38,847**	**33,206**	**30,943**	**65,409**

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
Changes in non-cash working capital	**2022**	2021	**2022**	2021
Accounts receivable and accrued sales	**(7,968)**	2,301	**(26,404)**	(2,029)
Prepaid expenses and deposits	**(2,539)**	4,192	**(1,891)**	4,565
Accounts payable and accrued liabilities	**5,848**	9,786	**32,832**	19,388
Change in non-cash working capital	**(4,659)**	16,279	**4,537**	21,924
Relating to:				
Operating activities	**(2,792)**	6,237	**(9,530)**	6,549
Investing activities	**(1,867)**	10,042	**14,067**	15,375
Change in non-cash working capital	**(4,659)**	16,279	**4,537**	21,924

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	**2022**	2021	**2022**	2021
Interest and standby fees on bank debt	**252**	25	**572**	57
Taxes (1)	**-**	-	**-**	-

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

ABBREVIATIONS

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

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

William C. Guinan [1, 5]
Independent

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

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

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

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

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

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President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

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

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

David A. Gillis
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick W.G. Miles
Vice President, Exploration

Carol Van Brunschot
Vice President, Marketing

Louise K. Lee
Corporate Secretary

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