kelt exploration

THIRD QUARTER REPORT

AS AT AND FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2020

FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
FINANCIAL						
Petroleum and natural gas sales	**48,823**	93,274	-48	**165,195**	296,593	-44
Cash provided by (used in) operating activities	**(8,610)**	14,640	-159	**55,991**	127,092	-56
Adjusted funds from operations (1)	**9,002**	39,173	-77	**48,074**	135,866	-65
Basic ($/ common share) (1)	**0.05**	0.21	-76	**0.26**	0.74	-65
Diluted ($/ common share) (1)	**0.05**	0.21	-76	**0.25**	0.74	-66
Profit (loss) and comprehensive income (loss)	**(24,080)**	(2,909)	728	**(350,826)**	9,200	-3913
Basic ($/ common share)	**(0.13)**	(0.02)	550	**(1.87)**	0.05	-3840
Diluted ($/ common share)	**(0.13)**	(0.02)	550	**(1.87)**	0.05	-3840
Total capital expenditures, net of dispositions	**(497,321)**	52,657	-1044	**(378,427)**	251,641	-250
Total assets	**824,751**	1,602,566	-49	**824,751**	1,602,566	-49
Net bank debt (surplus) (1)	**(127,584)**	320,507	-140	**(127,584)**	320,507	-140
Convertible debentures	**89,910**	81,630	10	**89,910**	81,630	10
Shareholders' equity	**576,862**	908,190	-36	**576,862**	908,190	-36
Weighted average shares outstanding (000s)						
Basic	**188,126**	184,266	2	**187,939**	184,146	2
Diluted	**188,740**	184,420	2	**188,677**	184,717	2
OPERATIONS						
Average daily production						
Oil (bbls/d)	**5,712**	9,981	-43	**8,064**	9,179	-12
NGLs (bbls/d)	**4,286**	4,480	-4	**4,644**	4,356	7
Gas (mcf/d)	**74,672**	100,136	-25	**90,861**	95,921	-5
Combined (BOE/d)	**22,443**	31,150	-28	**27,852**	29,522	-6
Production per million common shares (BOE/d)(1)	**119**	169	-30	**148**	160	-8
Average realized prices, before financial instruments(1)						
Oil ($/bbl)	**48.13**	65.41	-26	**39.20**	68.29	-43
NGLs ($/bbl)	**16.33**	16.64	-2	**13.59**	20.47	-34
Gas ($/mcf)	**2.24**	2.32	-3	**2.20**	3.38	-35
Operating netbacks ($/BOE) (1)						
Petroleum and natural gas sales	**23.65**	32.55	-27	**21.65**	36.81	-41
Cost of purchases	**(0.85)**	(1.72)	-51	**(0.83)**	(1.59)	-48
Average realized price, before financial instruments(1)	**22.80**	30.83	-26	**20.82**	35.22	-41
Realized gain (loss) on financial instruments	**(3.49)**	0.02	-17550	**1.68**	(0.08)	-2200
Average realized price, after financial instruments(1)	**19.31**	30.85	-37	**22.50**	35.14	-36
Royalties	**(0.94)**	(1.60)	-41	**(0.93)**	(1.95)	-52
Production expense	**(7.74)**	(8.88)	-13	**(9.56)**	(9.21)	4
Transportation expense	**(3.61)**	(4.69)	-23	**(3.58)**	(5.00)	-28
Operating netback (1)	**7.02**	15.68	-55	**8.43**	18.98	-56
Total landholdings						
Gross acres	**802,100**	1,062,582	-25	**802,100**	1,062,582	-25
Net acres	**581,633**	828,358	-30	**581,633**	828,358	-30

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

MESSAGE TO SHAREHOLDERS

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

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

On August 21, 2020, Kelt completed the sale of its Inga/Fireweed Division. Cash proceeds were $510.0 million, prior to closing adjustments. In addition, the purchaser assumed certain specific financial obligations related to the assets in the amount of approximately $41.0 million. Kelt's third quarter results reflect the sale and the associated closing adjustments to account for the July 1, 2020 effective date of the transaction.

Average production for the three months ended September 30, 2020 was 22,443 BOE per day, down 28%, compared to average production of 31,150 BOE per day during the third quarter of 2019. Production for the three months ended September 30, 2020 was weighted 45% oil and NGLs and 55% gas.

Kelt's realized average oil price during the third quarter of 2020 was $48.13 per barrel, down 26% from $65.41 per barrel in the third quarter of 2019. The decrease in realized oil prices was primarily related to the decline in global oil demand resulting from the COVID-19 pandemic, despite the efforts of global oil producers to reduce supply by curtailing portions of their oil production. The realized average NGLs price during the third quarter of 2020 was $16.33 per barrel, relatively unchanged from $16.64 per barrel in the same quarter of 2019.

Kelt's realized average gas price for the third quarter of 2020 was $2.24 per Mcf, down 3% from $2.32 per Mcf in the corresponding quarter of the previous year. As producers in Canada and the United States curtailed capital expenditures, resulting from the financial stresses caused by the COVID-19 pandemic, North American gas supply has been reduced considerably. Initially, the pandemic also resulted in global gas demand destruction which in turn negatively impacted North American LNG exports. As global gas demand begins to recover with the onset of colder winter weather, North American LNG exports are expected to increase creating a tighter supply-demand differential which is currently being reflected in the pricing of the gas futures market for 2021.

For the three months ended September 30, 2020, revenue was $48.8 million and adjusted funds from operations was $9.0 million ($0.05 per share, diluted), compared to $93.3 million and $39.2 million ($0.21 per share, diluted) respectively, in the third quarter of 2019.

During the third quarter of 2020, Kelt unwound 50% (1,500 bbls/d) of its crude oil fixed MSW price financial contracts for the remainder of the year. These contracts were put in place prior to the disposition of the Inga/Fireweed assets. The Company has taken advantage of the recent run up in future natural gas prices by entering into the following financial contracts:

(a) Kelt has fixed the NYMEX Henry Hub price on gas sales of 5,000 MMBtu/d at a price of CAD $3.95/MMBtu for the period from December 1, 2020 to October 31, 2021;
(b) Kelt has fixed the NYMEX Henry Hub price on gas sales of 5,000 MMBtu/d at a price of CAD $4.05/MMBtu for the period from January 1, 2021 to October 31, 2021; and
(c) Kelt has fixed the AECO Hub price on gas sales of 5,000 GJ/d (approximately 4,750 MMBtu/d) at a price of CAD $2.70/GJ (CAD $2.84/MMBtu) for the period from December 1, 2020 to October 31, 2021.

Capital expenditures incurred during the three months ended September 30, 2020 were $8.8 million, down 84% from $54.2 million of capital expenditures during the third quarter of 2019. Proceeds from the sale of assets during the third quarter of 2020 were $506.2 million, up from only $1.5 million in the same period of 2019. The majority of the asset sale proceeds during the third quarter of 2020 was from the sale of the Company's Inga/Fireweed Division.

At September 30, 2020, the Company had no bank debt outstanding. Cash and cash equivalents at September 30, 2020 were $135.5 million. On October 3, 2020, Kelt redeemed the $89.9 million of outstanding principal amount of its 5.00% convertible unsecured subordinated debentures.

Re-instating 2020 Guidance

Kelt expects its average 2020 production to be approximately 24,400 BOE per day, weighted approximately 44% oil and NGLs and 56% gas. Kelt is forecasting 2020 average commodity prices as follows: US$38.00 per barrel for WTI oil and US$2.10 per MMBtu for NYMEX Henry Hub natural gas.

Kelt expects adjusted funds from operations in 2020 to be approximately $57.0 million or $0.30 per diluted share. Kelt does not expect to have any bank debt outstanding at December 31, 2020 and the Company is forecasting a working capital surplus amount of $30.0 million at year-end.

Kelt continues to reduce production expenses by minimizing trucking of water and oil through infrastructure optimization and through the use of Company owned water injection facilities. Kelt has reduced its exposure to higher transportation cost gas hubs in the United States and is directing larger gas volumes to the western Canadian AECO gas market where the Company believes the market will remain under supplied over the next year.

At Wembley/Pipestone, Kelt has completed construction of its infrastructure giving the Company access to flow gas to three significant sized gas processing plants in the area. Kelt has significant behind pipe volumes at Wembley/Pipestone from five wells that have been drilled and completed. The Company expects to have two additional wells drilled (DUCs) at Wembley/Pipestone by year-end. Kelt expects to tie-in certain wells at Wembley/Pipestone in 2021 and will monitor future crude oil prices to determine the timing of pipeline construction required to tie-in the remaining wells that currently have production behind pipe.

Kelt expects the supply-demand differential in the gas market to tighten with the onset of winter, given the recent declines in Canadian and United States gas production. The Company plans to take advantage of these anticipated strong gas markets by drilling two high deliverability gas wells at its Pouce Coupe property in the fourth quarter of 2020.

2021 Budget

The Company's Board of Directors has approved a capital expenditure budget of $90.0 million for 2021. Kelt expects to drill 10 gross (10.0 net) wells in 2021 and expects to complete 12 gross (12.0 net) wells in 2021. The Company expects to have 5 gross (5.0 net) wells drilled but un-completed ("DUC") by the end of 2021. The 2021 capital expenditures are expected to be allocated as follows: $58.5 million for drilling and completing wells, $28.0 million for facilities, pipeline and equipment and $3.5 million for land and seismic.

At Wembley/Pipestone, the Company plans to drill four wells and also complete four wells. At Pouce Coupe, Kelt plans to complete the two high deliverability gas wells that are expected to be drilled in November/December 2020. At Oak/Flatrock, Kelt expects to drill five wells and complete six wells, leaving the year with three DUCs. The Company also expects to drill a vertical stratigraphic well at Oak, which after evaluation will be converted to a water disposal well. At Oak/Flatrock, Kelt expects to construct an oil battery, a gas compression facility and related pipeline infrastructure during the summer of 2021.

Preparation of the 2021 budget includes the following forecasted commodity price assumptions (with estimated forecasted 2020 commodity prices shown for comparative purposes):

Commodity Price Index	2021 Budget	2020 Forecast	Change
WTI Crude Oil (USD/bbl)	38.50	38.00	+ 1%
MSW Crude Oil (USD/bbl)	34.50	32.68	+ 6%
NYMEX Natural Gas (USD/MMBtu)	3.10	2.10	+ 48%
DAWN Gas Daily Index (USD/MMBtu)	3.00	1.95	+ 54%
CHICAGO City Gate Gas Daily Index (USD/MMBtu)	3.00	1.95	+ 54%
AECO [5A] Gas Daily Index (USD/MMBtu)	2.40	1.80	+ 33%
Station 2 [7B] Gas Monthly Index (USD/MMBtu)	2.35	1.70	+ 38%
Exchange Rate (USD/CAD)	0.746	0.740	+ 1%
Exchange Rate (CAD/USD)	1.340	1.351	− 1%

Financial and operating highlights for 2021 compared to the 2020 forecast are highlighted in the table below:

Financial and Operating Highlights ($ MM, unless otherwise specified)	**2021 Budget**	**2020 Forecast**	**Change**
Production			
Oil & NGLs (bbls/d)	6,500	10,800	− 40%
Gas (MMcf/d)	66,000	81,600	− 19%
Combined (BOE/d)	17,500	24,400	− 28%
Revenue	175.0	200.0	− 13%
Adjusted Funds from Operations	66.5	57.0	+ 17%
AFFO per share, diluted ($/share)	0.35	0.30	+ 17%
Capital Expenditures, net of dispositions	90.0	(359.0)	− 125%
Bank Debt, at year-end	nil	nil	nil
Working Capital Deficit (Surplus), at year-end	(4.0)	(30.0)	− 87%

During this period of uncertain economic conditions and volatile fluctuations in commodity prices driven by political headlines and the effects of the on-going COVID-19 pandemic, Kelt has strategically put itself in a position of financial strength, with no bank debt, a positive working capital position and a large Montney land acreage position (370,475 net acres or 579 net sections) to grow the Company's remaining production base as crude oil prices improve. In addition to its three Montney play areas at Wembley/Pipestone, Pouce Coupe/Progress and Oak/Flatrock, the Company is also in a position to develop its Charlie Lake play (74,720 net acres or 117 net sections) in Alberta.

Kelt will reassess its 2021 capital expenditure plans after the first quarter of 2021 in the event that actual commodity prices differ materially from the Company's forecasted prices. The Company will retain the flexibility to either increase or decrease capital spending plans accordingly.

Effective November 9, 2020, Louise K. Lee has been appointed as Corporate Secretary of Kelt. Ms. Lee is a partner at the law firm of Borden Ladner Gervais LLP. Ms. Lee has extensive experience advising clients on public financings, mergers and acquisitions. She also assists clients to ensure compliance with corporate and securities regulatory requirements. William C. Guinan, Kelt's previous Corporate Secretary, will continue to serve as a Director and as Chairman of the Board of Directors. In addition, effective November 9, 2020, Douglas J. Errico has been appointed as Senior Vice President, Land and Corporate Development. Mr. Errico has been Vice President, Land of Kelt since October 22, 2012.

Management looks forward to updating shareholders with 2020 year-end results on or about March 10, 2021.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
November 10, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

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

The Company was incorporated under the *Business Corporations Act* (Alberta) on October 11, 2012. Kelt's assets are comprised of three core operating divisions, namely: (1) Wembley/Pipestone in Alberta; (2) Pouce Coupe/Progress 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 and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively. On October 3, 2020 Kelt fully redeemed all outstanding convertible debentures, with the convertible debentures being delisted from trading on the TSX effective October 5, 2020. Additional information relating to Kelt can be found on SEDAR at www.sedar.com.

This Management's Discussion and Analysis ("MD&A") is dated November 10, 2020 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three and nine months ended September 30, 2020 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2019. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the consolidated interim financial statements for issue on November 10, 2020.

GENERAL ADVISORY

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

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

BASIS OF PRESENTATION

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

COVID 19

On January 30, 2020 the World Health Organization (“WHO”) declared a Public Health Emergency of International Concern for a novel coronavirus strain which was later named COVID-19. By March 2020, the WHO declared the COVID-19 a pandemic with governments around the world imposing significant public health measures in order to reduce its spread. The reduction in global crude oil demand as a result of the COVID-19 pandemic resulted in a collapse in crude oil prices starting in March and bottoming out in April with WTI crude oil prices trading at a negative value. However crude oil production curtailments both by OPEC and non-OPEC members, combined with oil demand returning as countries started the process to re-open their economies, resulted in average benchmark WTI prices rebounding to USD$40.89 per barrel in the third quarter of 2020. The current information surrounding the global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve.

FINANCIAL AND OPERATING SUMMARY

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**48,823**	93,274	-48	**165,195**	296,593	-44
Cash provided by (used in) operating activities	**(8,610)**	14,640	-159	**55,991**	127,092	-56
Adjusted funds from operations (1)	**9,002**	39,173	-77	**48,074**	135,866	-65
Diluted ($/ common share) (1)	**0.05**	0.21	-76	**0.25**	0.74	-66
Profit (loss) and comprehensive income (loss)	**(24,080)**	(2,909)	728	**(350,826)**	9,200	-3913
Diluted ($/ common share)	**(0.13)**	(0.02)	550	**(1.87)**	0.05	-3840
Total capital expenditures, net of dispositions	**(497,321)**	52,657	-1044	**(378,427)**	251,641	-250
Net bank debt (surplus)	**(127,584)**	320,507	-140	**(127,584)**	320,507	-140
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**22,443**	31,150	-28	**27,852**	29,522	-6
Average realized price, before financial instruments (1)	**22.80**	30.83	-26	**20.82**	35.22	-41
Average realized price, after financial instruments (1)	**19.31**	30.85	-37	**22.50**	35.14	-36
Operating netback (1)	**7.02**	15.68	-55	**8.43**	18.98	-56

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

In the third quarter of 2020, Kelt’s financial and operating results were significantly impacted by reduced economic activity caused by the COVID-19 pandemic, and the disposition of the Company’s assets located at Inga, Fireweed and Stoddart in British Columbia (“Inga Assets”).

- On August 21, 2020, Kelt completed the disposition of its Inga Assets for consideration of $504.6 million after closing adjustments. Proceeds of the disposition (hereinafter referenced as the “Inga Asset Disposition”) were initially used to repay the Company’s outstanding bank debt resulting in a positive working capital surplus of $127.6 million as at September 30, 2020.

- Average production of 22,443 BOE per day (45% oil/NGLs) decreased 28% compared to the third quarter of 2019 of 31,150 BOE per day (46% oil/NGLs) and decreased 26% compared to the second quarter of 2020 of 30,366 BOE per day (46% oil/NGLs). The decrease in 2020 was primarily as a result of the Inga Asset Disposition.

- Petroleum and natural gas sales for the three months ended September 30, 2020 was $48.8 million, down 48% from $93.3 million in the same quarter of 2019. Kelt’s average realized price before financial instruments of $22.80 per BOE during the third quarter of 2020 is 26% lower than the average realized price before financial instruments in the third quarter of 2019. Compared to the second quarter of 2020 the average realized price before financial instruments increased 42% as crude oil prices recovered from the lows observed in April and May.

- Kelt's operating netback of $7.02 per BOE for the quarter ended September 30, 2020 increased 7% from $6.56 per BOE from the quarter ended June 30, 2020 and decreased 55% from $15.68 per BOE during the quarter ended September 30, 2019.
- Concurrent with the closing of the sale of the Inga Assets, the Company has entered into a new $20.0 million demand revolving credit facility ("the Credit Facility") with a Canadian chartered bank.
- Subsequent to September 30, 2020, Kelt redeemed the $89.9 million outstanding principal amount of the convertible unsecured subordinated debentures and paid accrued interest of $1.5 million. In connection with the redemption of the Debentures, the Debentures were delisted from trading on the Toronto Stock Exchange effective October 5, 2020.

PRODUCTION

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Average daily production:						
Oil (bbls/d)	**5,712**	9,981	-43	**8,064**	9,179	-12
NGLs (bbls/d)	**4,286**	4,480	-4	**4,644**	4,356	7
Gas (mcf/d)	**74,672**	100,136	-25	**90,861**	95,921	-5
Combined (BOE/d)	**22,443**	31,150	-28	**27,852**	29,522	-6
Oil and NGLs weighting	**45%**	46%	-4	**46%**	46%	-

Average production for the three months ended September 30, 2020 decreased 28% compared to the same period in 2019 and decreased 26% compared to the second quarter of 2020. Kelt's average production reported for the first nine months of 2020 of 27,852 BOE per day is 6% lower than the comparative period in 2019.

The decrease in production was primarily due to the Inga Asset Disposition which decreased production by approximately 6,100 BOE per day for the three months ending September 30, 2020 and by approximately 2,100 BOE per day for the nine months ending September 30, 2020 versus comparable periods in 2019. Kelt's production excluding its Inga Assets for the nine months ending September 30, 2020 was 15,761 BOE per day; 3,909 BOE per day of oil production, 2,260 BOE per day of NGLs production 57,551 mcf per day of natural gas production.

Production also declined in 2020 due to the temporary shut in of production in the second quarter during a period of low crude oil prices and the deferral of the Company's 2020 capital program resulting in less new production additions.

REVENUE

All references to revenue in this discussion are before royalties.

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Revenue, before royalties and financial instruments:						
Oil	**25,291**	59,755	-58	**86,555**	169,372	-49
NGLs	**6,441**	6,858	-6	**17,289**	24,347	-29
Gas	**15,799**	21,135	-25	**56,164**	83,328	-33
Revenue, before marketing	**47,531**	87,748	-46	**160,008**	277,047	-42
Marketing revenue (2)	**1,292**	5,526	-77	**5,187**	19,546	-73
Total revenue (1)	**48,823**	93,274	-48	**165,195**	296,593	-44
Cost of purchases (3)	**(1,749)**	(4,930)	-65	**(6,365)**	(12,850)	-50
Kelt Revenue (4)	**47,074**	88,344	-47	**158,830**	283,743	-44
Average realized prices (5)						
Oil ($/bbl)	**48.13**	65.41	-26	**39.20**	68.29	-43
NGLs ($/bbl)	**16.33**	16.64	-2	**13.59**	20.47	-34
Gas ($/mcf)	**2.24**	2.32	-3	**2.20**	3.38	-35
Combined ($/BOE)	**22.80**	30.83	-26	**20.82**	35.22	-41

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

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

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

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

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

Revenue before marketing for the third quarter of 2020 was $47.5 million, down 46% from $87.7 million from the third quarter of 2019. Revenue before marketing for the nine months ending September 30, 2020 was $160.0 million, down 42% from the comparable period in 2019. The decrease in revenue is primarily driven by lower combined average realized price, which decreased 26% in the third quarter of 2020 and 41% in the nine months ending September 30, 2020 compared to the prior year. The decrease in revenue also resulted from a 28% decrease in production in the third quarter of 2020, and a 6% decrease in production for the nine months ending September 30, 2020 as compared to the prior periods in 2019, with the decrease in production primarily due to the Inga Asset Disposition.

OIL REVENUE

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Oil production (average bbls per day)	**5,712**	9,981	-43	**8,064**	9,179	-12
Oil revenue, before marketing	**25,291**	59,755	-58	**86,555**	169,372	-49
Marketing revenue, net of cost of purchases (1)	**1**	307	-100	**70**	1,755	-96
Kelt Revenue – Oil	**25,292**	60,062	-58	**86,625**	171,127	-49
Average realized oil prices ($/bbl) (2)(3)						
Before financial instruments	**48.13**	65.41	-26	**39.20**	68.29	-43
Realized gain (loss) on financial instruments	**(14.14)**	-	-	**5.10**	-	-
After financial instruments	**33.99**	65.41	-48	**44.30**	68.29	-35
Average realized price, percentage of MSW (7)	**97%**	96%		**90%**	98%	
Benchmark oil prices:						
WTI Cushing Oklahoma (US$/bbl) (5)	**40.89**	56.37	-27	**38.17**	56.99	-33
WTI Cushing Oklahoma (CA$/bbl) (5)	**54.45**	74.44	-27	**51.31**	75.77	-32
Mixed Sweet Blend Edmonton ("MSW") (CA$/bbl) (4)	**49.84**	68.40	-27	**43.70**	69.59	-37
MSW % of CA$WTI	**92%**	92%	-	**85%**	92%	-8
Average exchange rate (CA$/US$) (6)	**1.3316**	1.3206	1	**1.3539**	1.3291	2

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

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

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

(4) Source: Tidal Energy Marketing.

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

(6) Source: Bank of Canada.

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

Kelt's crude oil revenues decreased 58% in the three months ending September 30, 2020 and decreased 49% in the nine months ending September 30, 2020 compared to the same periods in 2019. The decrease was primarily due to lower average realized prices before financial instruments, and lower production due to the Inga Asset Disposition.

Kelt realized an average oil price before financial instruments of $48.13 per barrel during the three months ended September 30, 2020, down 26% from $65.41 per barrel during the comparative period of 2019. Kelt realized an average oil price before financial instruments of $39.20 per barrel during the nine months ended September 30, 2020, down from $68.29 per barrel during the comparative period of 2019. Benchmark crude oil prices decreased in 2020 as global crude oil demand was reduced due to the COVID-19 pandemic. Benchmark WTI prices averaged US$27.81 per BOE in the second quarter of 2020 but increased to US$40.89 per barrel in the third quarter as oil demand recovered as economies partially re-opened and producing nations reduced oil supply.

The average discount on Kelt's realized oil price before financial instruments relative to the MSW reference price was $1.71 per barrel (97% of MSW) during the third quarter of 2020 compared to an average discount of $2.99 per barrel (96% of MSW) during the third quarter of 2019. The average discount on Kelt's realized oil price before financial instruments relative to the MSW reference price was $4.50 per barrel (90% of MSW) during the nine months ending September 30, 2020 compared to an average discount of $1.30 per barrel (98% of MSW) during the comparable period of 2019.

NGL REVENUE

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
NGLs production (average bbls per day)	**4,286**	4,480	-4	**4,644**	4,356	7
NGLs barrels per mmcf of natural gas sales	**57**	45	27	**51**	45	13
NGLs revenue	**6,441**	6,858	-6	**17,289**	24,347	-29
Average realized NGLs prices ($/bbl)						
Before financial instruments	**16.33**	16.64	-2	**13.59**	20.47	-34
Realized gain (loss) on financial instruments	**(0.31)**	-	-	**(0.11)**	-	-
After financial instruments	**16.02**	16.64	-4	**13.48**	20.47	-34
Average realized price, percentage of CA$WTI (1)	**30%**	22%		**26%**	27%	
Benchmark NGLs prices (2) ($/bbl):						
Edmonton Pentane	**51.73**	68.25	-24	**47.85**	70.20	-32
% of CA$WTI	**95%**	92%	3	**93%**	93%	-
Edmonton Butane	**19.13**	23.57	-19	**22.72**	17.97	26
% of CA$WTI	**35%**	32%	9	**44%**	24%	83
Edmonton Propane	**14.16**	13.06	8	**16.33**	13.92	17
% of CA$WTI	**26%**	18%	44	**32%**	18%	78
Edmonton Ethane	**6.28**	2.76	128	**5.82**	6.13	-5
% of CA$WTI	**12%**	4%	200	**11%**	8%	38

(1) Average realized NGLs price, before financial instruments, divided by the Canadian dollar equivalent WTI reference price for the period.
(2) Source: Sproule Associates Limited.

Kelt's NGLs revenue decreased by 6% in the third quarter of 2020 and decreased 29% in the nine months ending September 30, 2020 compared to the same periods in 2019. The Company's NGLs production decreased by 4% in the third quarter of 2020 and increased 7% in the nine months ending September 30, 2020 as compared to the same periods in 2019. The decrease in production in the third quarter of 2020 was a result of the Inga Asset Disposition.

Kelt realized an average price for its NGLs of $16.33 per barrel during the third quarter of 2020, down 2% from the third quarter of 2019. Kelt realized an average price for its NGLs of $13.59 per barrel during the nine months ending September 30, 2020, a decrease of 34% from the comparable period in 2019.

NGLs prices are impacted both by benchmark WTI prices, as well as localized market supply and demand issues. In 2019, propane and butane prices were depressed due to an oversupply in Western Canada as a result of constrained takeaway capacity. In the third quarter of 2020, propane prices increased as compared to 2019. However, benchmark WTI prices decreased in 2020, resulting in lower pentane and butane prices as compared to 2019. The overall result was an average NGLs price for the third quarter of 2020 being relatively consistent to the third quarter of 2019, due to a reduction in benchmark WTI prices, which was offset by a reduction in some of the constrained takeaway capacity experienced in 2019.

For the nine months ending September 30, 2020, the decrease of 34% in the NGLs price was primarily driven by an average decrease in benchmark WTI (CA$/bbl) prices of 32%, with the decrease in benchmark WTI prices resulting from the global demand contraction due to the COVID-19 pandemic.

GAS REVENUE

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Gas production (MCF per day)	**74,672**	100,136	-25	**90,861**	95,921	-5
Gas revenue, before marketing	**15,799**	21,135	-25	**56,164**	83,328	-33
Marketing revenue, net of cost of purchases [9]	**(458)**	288	-259	**(1,248)**	4,940	-125
Kelt Gas revenue	**15,341**	21,423	-28	**54,916**	88,268	-38
Average realized gas price ($/MCF)						
Before financial instruments	**2.24**	2.32	-3	**2.20**	3.38	-35
Realized gain (loss) on financial instruments	**0.05**	0.01	400	**0.07**	(0.02)	-450
After financial instruments	**2.29**	2.33	-2	**2.27**	3.36	-32
Benchmark gas prices:						
NYMEX Henry Hub (US$/MMBtu) [1]	**1.94**	2.24	-13	**1.88**	2.66	-29
Average exchange rate (CA$/US$) [2]	**1.3316**	1.3206	1	**1.3539**	1.3291	2
NYMEX Henry Hub (CA$/MMBtu) [1]	**2.58**	2.95	-13	**2.54**	3.54	-28
AECO 5A (CA$/MMBtu) [3]	**2.24**	0.91	146	**2.09**	1.52	38
Chicago-City Gate (CA$/MMBtu) [4]	**2.45**	2.74	-11	**2.35**	3.31	-29
Dawn (CA$/MMBtu) [5]	**2.42**	2.80	-14	**2.35**	3.27	-28
Malin (CA$/MMBtu) [6]	**2.53**	2.61	-3	**2.55**	3.56	-28
Sumas (CA$/MMBtu) [7]	**2.51**	2.74	-8	**2.60**	4.87	-47
Station 2 (CA$/MMBtu) [8]	**2.25**	0.67	236	**2.07**	0.86	141

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

(2) Source: Bank of Canada.

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

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

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

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

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

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

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

Natural gas revenue before marketing decreased 25% to $15.8 million in the third quarter of 2020 and decreased 33% to $56.2 million for the nine months ending September 30, 2020 as compared to the same periods in 2019. Kelt's average realized natural gas price before financial instruments in the third quarter of 2020 decreased 3% from the third quarter of 2019 and decreased 35% in the nine months ending September 30, 2020 versus the comparable period in 2019.

Starting in the fourth quarter of 2019, Kelt began reducing its exposure to US natural gas markets and increasing its exposure to AECO 5A and Station 2 as the fundamentals for Canadian natural gas prices improved. In the third quarter of 2020, Kelt's natural gas sold at U.S. indices comprised of approximately 65 percent of natural gas sales compared to approximately 95 percent in the third quarter of 2019.

Canadian AECO 5A and Station 2 natural gas benchmark prices increased significantly in 2020 as compared to 2019 as fundamentals have improved with declining supply in Western Canada and improved storage injections resulting from changes to the priority service for the Nova Gas Transmission Ltd. pipeline system.

The U.S. natural gas indices experienced a decline in prices at the beginning of 2020, primarily due to higher than normal storage levels from a warm 2019 winter, followed by demand concerns in 2020 due to the COVID-19 pandemic. However by the third quarter of 2020, the significant reduction in North American shale oil drilling activities has resulted in a decrease in associated natural gas production, raising both US and Canadian natural gas price indices, and improving the fundamentals for a higher average natural gas price into the fourth quarter of 2020.

ROYALTIES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Royalties	**1,947**	4,585	-58	**7,130**	15,695	-55
Average royalty rate (1)	**4.1%**	5.2%	-21	**4.5%**	5.7%	-21
$ per BOE	**0.94**	1.60	-41	**0.93**	1.95	-52

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

Kelt’s average royalty rate was 4.1% during the third quarter of 2020, compared to 5.2% during the third quarter of 2019 and 4.5% for the nine months ending September 30, 2020 versus 5.7% in the same period in 2019. The primary reason for the decrease in the average royalty rate in 2020 was due to a $1.2 million royalty credit from the BC Infrastructure Royalty Credit Program. The credit is applied against royalties as they are incurred, resulting in a lower average royalty rate when compared to the same period in 2019.

The decline in Canadian benchmark crude oil prices in 2020 resulted in lower royalty expense in 2020 as compared to 2019.

PRODUCTION EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Production expense	**15,987**	25,448	-37	**72,987**	74,241	-2
$ per BOE	**7.74**	8.88	-13	**9.56**	9.21	4

Production expenses were $16.0 million during the third quarter of 2020, down 37% from the comparative quarter. Production expenses averaged $7.74 per BOE during the third quarter of 2020, compared to $8.88 per BOE in the same period in 2019.

For the three months ending September 30, 2020, operating expenses per BOE decreased by 13% primarily due to the Company’s cost savings initiatives and reduction in field activity resulting from the COVID 19 pandemic. For the nine months ending September 30, 2020, the cost reductions in the third quarter of 2020 were offset by higher costs in the first six months of 2020 as compared to 2019, primarily due to an increase in gas processing and utility costs.

Production expenses of $73.0 million during the first nine months of 2020 declined 2% from $74.2 million during the nine months ending September 30, 2019. Production expenses averaged $9.56 per BOE during the nine months ending September 30, 2020, up from $9.21 per BOE for the nine months ending September 30, 2019.

TRANSPORTATION EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Transportation expense (1)	**7,453**	13,443	-45	**27,348**	40,321	-32
$ per BOE	**3.61**	4.69	-23	**3.58**	5.00	-28

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

Transportation expenses averaged $3.61 per BOE during the third quarter of 2020, a decrease of 23% from $4.69 per BOE in the third quarter of 2019 and averaged $3.58 per BOE in the nine months ending September 30, 2020, a decrease of 28% from $5.00 per BOE in the same period in 2019. A large portion of the Company's Chicago gas transportation was not renewed in the fourth quarter of 2019 due to the relative strength of benchmark pricing at the Station 2 and AECO 5A markets compared to US indices.

FINANCING EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Interest on bank debt	**1,646**	2,739	-40	**7,011**	6,846	2
Fees on bank debt	**78**	139	-44	**704**	541	30
Interest on convertible debentures	**1,133**	1,133	-	**3,362**	3,362	-
Interest on finance lease	**31**	33	-6	**126**	133	-5
Interest on financing liability	**413**	35	-1080	**1,200**	70	1614
Total interest expense	**3,301**	4,079	-19	**12,403**	10,952	13
Accretion of convertible debentures	**1,248**	1,118	12	**3,640**	3,240	12
Accretion of decommissioning obligations	**351**	733	-52	**1,568**	2,276	-31
Total financing expense	**4,900**	5,930	-17	**17,611**	16,468	7
Interest expense per BOE (1)	**1.60**	1.42	13	**1.63**	1.37	19
Average principal amount outstanding during period:						
Bank debt	**181,975**	283,972	-36	**268,851**	233,436	15
Convertible debentures	**89,910**	89,910	-	**89,910**	89,910	-
Average total principal amount of debt outstanding	**271,885**	373,882	-27	**358,761**	323,346	11
Average interest rates:						
Bank debt (2)	**3.6**	3.8	-5	**3.5**	3.9	-10
Convertible debentures	**5.0**	5.0	-	**5.0**	5.0	-

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

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

On August 21, 2020, the Company paid out all amounts outstanding under its revolving committed term credit facility resulting in a decrease of 36% in the average bank debt outstanding during the third quarter of 2020 and a decrease in total interest expense as compared to the same period in the prior year.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Salaries and benefits	**1,630**	2,488	-34	**5,118**	7,786	-34
Other G&A expenses	**925**	674	37	**3,777**	3,549	6
Gross G&A expenses	**2,555**	3,162	-19	**8,895**	11,335	-22
Overhead recoveries	**(710)**	(1,416)	-50	**(3,425)**	(4,923)	-30
G&A expense, net of recoveries	**1,845**	1,746	6	**5,470**	6,412	-15
Gross G&A ($ per BOE)	**1.24**	1.10	13	**1.17**	1.41	-17
Net G&A ($ per BOE)	**0.89**	0.61	46	**0.72**	0.80	-10

G&A expense, net of recoveries, averaged $0.89 per BOE during the third quarter of 2020, an increase of 46% compared to $0.61 per BOE during the third quarter of 2019. The third quarter of 2020 had lower overhead recoveries due to the deferral of the Company's 2020 capital program. In addition, the Inga Asset Disposition resulted in an increase in G&A per BOE as production decreased at a higher rate than the reduction in the Company's G&A expenses.

For the nine months ended September 30, 2020, net G&A per BOE, decreased 10% as compared to the same period in 2019 which is largely due to a decrease in employee compensation and recoveries related to the federal government's Canada Emergency Wage Subsidy program.

Kelt continues to incur below industry average G&A expenses as a result of management's continued efforts to maintain a low-cost structure.

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

SHARE BASED COMPENSATION ("SBC")

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Stock options	**593**	1,051	-44	**2,420**	3,254	-26
Restricted share units ("RSUs")	**722**	675	7	**1,978**	2,148	-8
Total SBC expense	**1,315**	1,726	-24	**4,398**	5,402	-19
$ per BOE	**0.64**	0.60	7	**0.58**	0.67	-13

The decrease in SBC expense during the three and nine months ended September 30, 2020 compared to the same quarter in 2019 is primarily due increased forfeitures of unvested stock options in the quarter, fewer restricted shares units issued in recent periods and the lower Black-Scholes value associated with recent option grants.

As at September 30, 2020, stock options and RSUs outstanding represent 6.2% of total shares outstanding (December 31, 2019 – 5.8%).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Impairment and expiry of mineral leases	**2,020**	300	573	**2,963**	873	239
$ per BOE	**0.98**	0.10	880	**0.39**	0.11	255

Exploration and evaluation expense was $2.0 million in the third quarter of 2020 and $3.0 million for the nine months ending September 30, 2020 and relates to the expiry and impairment of undeveloped land.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Depletion and depreciation	**19,106**	42,065	-55	**94,591**	117,007	-19
Impairment	**-**	-	-	**336,500**	-	-
Total depletion, depreciation and impairment	**19,106**	42,065	-55	**431,091**	117,007	268
Depletion and depreciation ($/BOE)	**9.25**	14.68	-37	**12.39**	14.52	-15
Impairment ($/BOE)	**-**	-	-	**44.09**	-	-

The Company calculates depletion of development and production ("D&P") assets based on production relative to total proved reserves for each depletion unit. Depletion and depreciation expense of $19.1 million for the quarter ended September 30, 2020 decreased by 55% from $42.1 million in the comparable period in 2019. Depletion and depreciation expense for the nine months ended September 30, 2020 decreased 19% as compared to the same nine-month period in 2019. The decrease was primarily due to the sale of the Inga Assets, which were classified as Assets Held for Sale as of June 30, 2020 and not depleted in the third quarter.

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

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Gain (loss) on sale of assets	**(5,279)**	1,103	-579	**(3,576)**	6,003	-160

On August 21, 2020, Kelt completed the Inga Asset Disposition, located in British Columbia, for consideration of $504.6 million after closing adjustments, which includes a deposit of $15.0 million held in trust. The Inga Asset Disposition had an effective date of July 1, 2020. The Inga Assets had a carrying value of $510.9 million, resulting in a loss on sale of $6.3 million.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Realized gain (loss)	**(6,348)**	59	-10859	**13,719**	(608)	-2356
Unrealized gain (loss)	**3,886**	2,224	75	**(158)**	(906)	-83
Gain (loss) on derivative financial instruments	**(2,462)**	2,283	-208	**13,561**	(1,514)	-996
$ per BOE	**(1.19)**	0.80	-249	**1.77**	(0.19)	-1032

Commodity price risk

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

As at November 10, 2020, the following commodity price risk management contracts outstanding:

Contract Type(1)(2)(3)	Notional Volume	Contract Price	Remaining Term
Crude oil derivative contracts			
MSW fixed price swap	1,500 bbl/d	CAD$32.25/bbl	Oct - Dec 2020
NGL derivative contracts			
OPIS-Conway propane fixed price swap	500 bbl/d	CAD$23.35/bbl	Oct - Dec 2020
Natural gas derivative contracts			
NYMEX fixed price swap	45,000 MMBtu/d	CAD$2.83/MMBtu	Oct 2020
NYMEX to AECO 5A differential	25,000 MMBtu/d	NYMEX less USD$0.4675/MMBtu	Oct 2020
NYMEX fixed price swap	25,000 MMBtu/d	CAD$2.90/MMBtu	Nov 2020
NYMEX fixed price swap	5,000 MMBtu/d	CAD$3.95/MMBtu	Dec 2020 - Oct 2021
AECO 5A fixed price swap(4)	4,750 MMBtu/d	CAD$2.84/MMBtu	Dec 2020 - Oct 2021
NYMEX fixed price swap	5,000 MMBtu/d	CAD$4.05/MMBtu	Jan 2021 - Oct 2021

(1) West Texas Intermediate (“WTI”)

(2) Mixed Sweet Blend (“MSW”)

(3) NYMEX Henry Hub (“NYMEX”)

(4) The fixed price swap contract is for 5,000GJ/d at a contract price of CAD$2.70/GJ, prior to converting over to MMBTU’s.

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. At the end of the third quarter, the Company has no amounts drawn on its Credit Facility, therefore there would be no effect on the Company’s interest rate risk if the market interest rate increased or decreased.

During the third quarter of 2020, the Company paid $0.3 million to unwind all outstanding interest rate swaps. As at November 10, 2020, 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.

During the third quarter of 2020, the Company received $0.4 million for unwinding its foreign exchange risk management contract. As at November 10, 2020, there are no foreign exchange risk management contracts outstanding.

PREMIUM ON FLOW-THROUGH SHARES

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

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

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities

(“FTS”) to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. As of September 30, 2020, all eligible expenditures have been incurred for the Company’s flow through shares issued in 2019.

INCOME TAXES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Deferred income tax expense (recovery)	**-**	(525)	-100	**(56,428)**	3,610	-1663
Profit (loss) before taxes	**(24,080)**	(3,434)	601	**(407,254)**	12,810	-3279
Effective tax recovery rate	**-**	15.3%	-100	**13.9%**	28.2%	-51
Statutory rate - Alberta	**23.0%**	26.0%	-12	**24.3%**	26.7%	-9

Kelt does not recognized any deferred tax assets due to uncertainty regarding future taxable income and no deferred income tax expense or recovery was recorded in the third quarter of 2020.

Kelt was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. The Company’s consolidated tax pools at September 30, 2020 are estimated to be approximately $699.7 million.

		September 30	December 31	%
(CA$ thousands, unless otherwise indicated)	Rate	**2020**	2019	change
Canadian oil and gas property expenses (COGPE)	10-15%	**89,836**	115,792	-22
Canadian development expenses (CDE)	30-45%	**81,615**	254,985	-68
Canadian exploration expenses (CEE)	100%	**53,858**	109,508	-51
Undepreciated capital cost (1) (UCC)	25-37.5%	**189,610**	264,870	-28
Share and debt issue costs (SIC/DIC)	5 years	**893**	1,805	-51
Non-capital losses (2) (NCL)	100%	**283,858**	437,754	-35
Estimated tax deductions available, end of period		**699,670**	1,184,714	-41

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

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

ADJUSTED FUNDS FROM OPERATIONS

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

THREE MONTHS ENDED SEPTEMBER 30TH	2020		2019		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**48,823**	**23.65**	93,274	32.55	-48	-27
Cost of purchases	**(1,749)**	**(0.85)**	(4,930)	(1.72)	-65	-51
Realized gain on financial instruments (1)	**(7,213)**	**(3.49)**	59	0.02	-12325	-17550
Royalties	**(1,947)**	**(0.94)**	(4,585)	(1.60)	-58	-41
Revenue, after royalties and financial instruments	**37,914**	**18.37**	83,818	29.25	-55	-37
Production expense	**(15,987)**	**(7.74)**	(25,448)	(8.88)	-37	-13
Transportation expense	**(7,453)**	**(3.61)**	(13,443)	(4.69)	-45	-23
Operating income/netback (3)	**14,474**	**7.02**	44,927	15.68	-68	-55
Financing expense (4)	**(3,301)**	**(1.60)**	(4,079)	(1.42)	-19	13
G&A expense	**(1,845)**	**(0.89)**	(1,746)	(0.61)	6	46
Realized gain (loss) on financial instruments (2)	**(365)**	**(0.18)**	-	-	-	-
Realized gain (loss) on foreign exchange	**(73)**	**(0.04)**	4	-	-1925	-
Other income/expense	**112**	**0.05**	67	0.02	67	150
Adjusted funds from operations (3)	**9,002**	**4.36**	39,173	13.67	-77	-68
Basic ($ per common share) (5)	**0.05**		0.21		-76	
Diluted ($ per common share) (5)	**0.05**		0.21		-76	
Common shares outstanding (000s):						
Basic, weighted average	**188,126**		184,266		2	
Diluted, weighted average	**188,740**		184,420		2	

NINE MONTHS ENDED SEPTEMBER 30TH	2020		2019		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**165,195**	**21.65**	296,593	36.81	-44	-41
Cost of purchases	**(6,365)**	**(0.83)**	(12,850)	(1.59)	-50	-48
Realized gain (loss) on financial instruments (1)	**12,854**	**1.68**	(608)	(0.08)	-2214	-2200
Royalties	**(7,130)**	**(0.93)**	(15,695)	(1.95)	-55	-52
Revenue, after royalties and financial instruments	**164,554**	**21.57**	267,440	33.19	-38	-35
Production expense	**(72,987)**	**(9.56)**	(74,241)	(9.21)	-2	4
Transportation expense	**(27,348)**	**(3.58)**	(40,321)	(5.00)	-32	-28
Operating income/netback (3)	**64,219**	**8.43**	152,878	18.98	-58	-56
Financing expense (4)	**(12,403)**	**(1.63)**	(10,952)	(1.37)	13	19
G&A expense	**(5,470)**	**(0.72)**	(6,412)	(0.80)	-15	-10
Realized gain (loss) on financial instruments (2)	**865**	**0.11**	-	-	-	-
Realized gain (loss) on foreign exchange	**112**	**0.01**	(210)	(0.03)	-153	-133
Other income/expense	**751**	**0.09**	562	0.07	34	29
Adjusted funds from operations (3)	**48,074**	**6.29**	135,866	16.85	-65	-63
Basic ($ per common share) (5)	**0.26**		0.74			
Diluted ($ per common share) (5)	**0.25**		0.74			
Common shares outstanding (000s):						
Basic, weighted average	**187,939**		184,146			
Diluted, weighted average	**188,677**		184,717			

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

(2) Includes realized gains (losses) on cash premium on financial instruments and interest rate derivatives.

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

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

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

During the three months ended September 30, 2020, adjusted funds from operations of $9.0 million ($0.05 per share, diluted) decreased by 77% from $39.2 million ($0.21 per share, diluted) during the third quarter ended September 30, 2019. The decrease in adjusted funds from operations is primarily attributed a decrease in operating income.

During the nine months ended September 30, 2020, adjusted funds from operations of $48.1 million ($0.25 per share, diluted) decreased by 65% from $135.9 million ($0.74 per share, diluted) during the nine months ended September 30, 2019. The decrease in adjusted funds from operations is primarily attributed to the decrease in Kelt's operating income which was down 58% to $64.2 million compared to $152.9 million in the nine months ending September 30, 2019. The decrease is driven by a 32% decrease in the benchmark WTI (CA$/bbl) oil price and 6% decrease in average production due to the Inga Asset Disposition.

PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Profit (loss) and comprehensive income (loss)	**(24,080)**	(2,909)	728	**(350,826)**	9,200	-3913
$ per common share, basic	**(0.13)**	(0.02)	550	**(1.87)**	0.05	-3840
$ per common share, diluted (1)(2)	**(0.13)**	(0.02)	550	**(1.87)**	0.05	-3840
$ per BOE	**(11.66)**	(1.01)	1054	**(45.98)**	1.13	-4169
Wtd avg. shares outstanding, basic (000s)	**188,126**	184,266	2	**187,939**	184,146	2
Wtd avg. shares outstanding, diluted (000s) (1)(2)	**188,740**	184,420	2	**188,677**	184,717	2

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

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

Kelt reported a loss of $24.1 million ($0.13 per common share, diluted) for the three months ended September 30, 2020, compared to a loss of $2.9 million ($0.02 per common share, diluted) in the same three month period of 2019. The decrease to profit is primarily due to a $30.2 million decrease in adjusted funds from operations.

Kelt reported a loss of $350.8 million ($1.87 per common share, diluted) for the nine months ended September 30, 2020, compared to a profit of $9.2 million ($0.05 per common share, diluted) in the same period of 2019. The decrease in profit is primarily due to a $87.8 million decrease in adjusted funds from operations and an impairment of $336.5 million.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

Drilling and completion expenditures in 2020 were significantly lower than in 2019. In April, the Company deferred much of its remaining 2020 capital program in response to lower crude oil prices. The Company resumed drilling in the third quarter and expects to drill a total of five wells in 2020 all of which are expected to be rig released in the fourth quarter. For the nine months ended September 30, 2020 drilling and completion costs of $53.7 million included the drilling of 9.0 net wells and the completion of 7.0 net wells.

Kelt's facility, pipeline and well equipment spending for the three months ending September 30, 2020 of $4.2 million and related primarily to the completion of pipeline and facility projects that commenced in early 2020. For the nine months ended September 30, 2020 facility, pipeline and well equipment spending totaled $71.4 million which included a refrigeration and dehydration at the Inga 2-10 gas plant and related pipelines. Spending in 2020 on facility, pipeline and well equipment also included facility and pipeline projects at Wembley.

On August 21, 2020, Kelt completed the Inga Asset Disposition, located in British Columbia, for consideration of $504.6 million after closing adjustments. The Inga Asset Disposition had an effective date of July 1, 2020. The Inga Assets had a carrying value of $510.9 million, resulting in a loss on sale of $6.3 million.

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Capital expenditures:						
Lease acquisition and retention	**419**	1,037	-60	**1,144**	1,830	-37
Geological and geophysical	**-**	124	-100	**1,507**	1,225	23
Drilling and completion of wells	**2,183**	25,169	-91	**53,707**	149,636	-64
Facilities, pipeline and well equipment	**4,224**	26,307	-84	**71,397**	99,345	-28
Corporate assets	**21**	559	-96	**89**	760	-88
Capital expenditures, before A&D	**6,847**	53,196	-87	**127,844**	252,796	-49
Property acquisitions	**2,000**	998	100	**2,016**	6,406	-69
Property dispositions	**(506,168)**	(1,537)	32832	**(508,287)**	(7,561)	6622
Total capital expenditures, net of dispositions	**(497,321)**	52,657	-1044	**(378,427)**	251,641	-250

DRILLING

	Three months ended September 30			Nine months ended September 30		
Net wells	**2020**	2019	%	**2020**	2019	**%**
Drilling	**-**	3.0	-	**9.0**	27.0	-67
Completion	**-**	5.0	-	**7.0**	30.0	-77

CAPITAL RESOURCES AND LIQUIDITY

LIQUIDITY

Kelt's objective is to maintain a flexible capital structure that provides sufficient liquidity for the Company to meet its obligations when due and to execute on its capital investment program. The Company manages its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As a result of the COVID-19 pandemic global economic markets and crude oil demand have been negatively affected. In response to the uncertainty caused by COVID-19, Kelt has reduced capital spending and lowered its outstanding debt and other third party financing obligations. As at September 30, 2020, Kelt's capital structure was comprised of shareholders' capital, convertible debentures, bank debt and working capital.

In the third quarter, Kelt sold its Inga Assets for cash proceeds of $510.0 million before closing adjustments. In addition, the purchaser assumed $28.8 million of financing liabilities and $1.1 million of lease and other liabilities. Proceeds of the disposition were initially used to repay the Company's outstanding bank debt resulting in a positive working capital surplus of $127.6 million at September 30, 2020.

Subsequent to quarter end, Kelt redeemed its outstanding convertible debentures, plus accrued interest, for $91.4 million. Following the repayment of the bank debt, disposition of the financing obligations and redemption of the convertible debentures Kelt is without any long-term bank or financial obligations.

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback amount of $15 million, currently held in trust. The holdback will be released to the vendor over the course of 12 months from the transaction closing date of August 21, 2020 in three equal amounts, provided no claims are brought forth by the purchaser.

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

	September 30, 2020	December 31, 2019
Bank debt	-	300,000
Working capital deficiency (surplus) (1)	(127,584)	28,080
Net bank debt (surplus) (2)	(127,584)	328,080
Annualized quarterly adjusted funds from operations (2)(3)	36,008	186,620
Net bank debt (surplus) to annualized quarterly adjusted funds from operations ratio (2)	(3.5)	1.8

(1) Working capital does not include convertible debentures.

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

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

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

CREDIT FACILITY

Concurrent with the closing of the Inga Asset Disposition, the Company has paid out all amounts outstanding under its previous $350.0 million revolving committed term credit facility with a syndicate of lenders and entered into a new $20.0 million demand revolving credit facility ("the Credit Facility") with a Canadian chartered bank. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

CONVERTIBLE DEBENTURES

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at September 30, 2020 with a maturity date of May 31, 2021 ("Maturity Date").

In the third quarter of 2020, the Company issued a redemption notice to registered holders of the Debentures with a redemption date of October 3, 2020. Pursuant of the notice, the Company will redeem all outstanding convertible debentures, plus all accrued and unpaid interest up to but excluding the date of redemption for $91.4 million. As a result of the redemption notice, on September 30, 2020 the carrying value of the convertible debentures was increased to the redemption value of $89.9 million, with a $3.5 million loss being recorded in the third quarter of 2020.

In connection with the redemption of the Debentures, the Debentures were delisted from trading on the Toronto Stock Exchange effective October 5, 2020.

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at September 30, 2020 there were 188.5 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 third quarter of 2020, 81.6 million common shares traded on the TSX at a weighted average price of $1.70 per common share, down from the volume weighted average trading price of $4.25 per common share during the year ended December 31, 2019.

As at September 30, 2020, officers, directors, and employees have been granted options to purchase 11.3 million common shares of the Company at an average exercise price of $3.93 per common share. In addition, there are 0.4 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 13 of the interim financial statements.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

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

	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	2,130	10,690	10,655	10,663	10,701	39,863
Firm transportation commitments (1)	5,770	20,223	18,803	14,682	13,184	33,530
Total commitments	**7,900**	**30,913**	**29,458**	**25,345**	**23,885**	**73,393**

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on September 30, 2020 of CA$/US$1.3228.

Following the closing of the Inga Asset Disposition, approximately $278.1 million of Kelt's processing and transportation commitments were acquired by the purchaser including a take-or-pay firm processing commitment for 75 MMcf/d raw gas under a 10-year term and a firm transportation commitment on the North Montney Mainline under a 20-year term.

OFF-BALANCE SHEET TRANSACTIONS

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

SUMMARY OF QUARTERLY RESULTS

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

(CA$ thousands, except as otherwise indicated)	**Q3 2020**	Q2 2020	Q1 2020	Q4 2019
Petroleum and natural gas sales	**48,823**	45,454	70,918	97,763
Cash provided by (used in) operating activities	**(8,610)**	14,429	50,172	35,396
Adjusted funds from operations (1)	**9,002**	11,712	27,360	46,655
Per share – basic ($/common share) (1)	**0.05**	0.06	0.15	0.25
Per share – diluted ($/common share) (1)	**0.05**	0.06	0.15	0.25
Loss and comprehensive loss	**(24,080)**	(252,661)	(74,085)	(2,628)
Per share – basic ($/common share)	**(0.13)**	(1.35)	(0.39)	(0.01)
Per share – diluted ($/common share)	**(0.13)**	(1.35)	(0.39)	(0.01)
Total capital expenditures, net of dispositions	**(497,321)**	27,768	91,126	63,983
Total assets	**824,751**	1,295,965	1,608,870	1,605,465
Net bank debt (surplus) (1)	**(127,584)**	383,200	344,664	328,080
Convertible debentures	**89,910**	85,181	83,957	82,789
Shareholders' equity	**576,862**	599,399	850,486	923,062
Average daily production (BOE/d)	**22,443**	30,366	30,806	31,262
Average realized price ($/BOE) (1)(2)	**19.31**	20.67	26.65	32.53
Operating netback ($/BOE) (1)	**7.02**	6.56	11.28	18.65
Operating netback % of average realized price (2)	**36%**	32%	42%	57%

	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Petroleum and natural gas sales	93,274	100,734	102,585	100,350
Cash provided by operating activities	14,640	58,639	53,813	63,656
Adjusted funds from operations (1)	39,173	45,234	51,459	47,140
Per share – basic ($/common share)	0.21	0.25	0.28	0.26
Per share – diluted ($/common share)	0.21	0.25	0.28	0.26
Profit (loss) and comprehensive income (loss)	(2,909)	2,740	9,369	2,843
Per share – basic ($/common share)	(0.02)	0.01	0.05	0.02
Per share – diluted ($/common share)	(0.02)	0.01	0.05	0.02
Total capital expenditures, net of dispositions	52,657	91,022	107,962	70,332
Total assets	1,602,566	1,577,824	1,515,227	1,423,521
Net bank debt (surplus) (1)	320,507	308,636	258,351	196,416
Convertible debentures	81,630	80,512	79,426	78,390
Shareholders' equity	908,190	909,373	904,835	893,796
Average daily production (BOE/d)	31,150	30,314	27,057	28,711
Average realized price ($/BOE) (1)(2)	30.85	35.01	40.31	34.71
Operating netback ($/BOE) (1)	15.68	18.50	23.39	19.39
Operating netback as a % of average realized price (2)	51%	53%	58%	56%

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

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

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

Kelt's realized oil prices and production volumes increased at the beginning of 2019, and taken together with higher average production, drove the increase in Company revenues, cash provided by operating activities, and operating netbacks during the first quarter of 2019. In the last nine months of 2019 concerns about global consumer demand and a reduction of future forecasted oil demand resulted in lower global benchmark oil prices.

In March 2020, the WHO declared the COVID-19 a pandemic with governments around the world imposing significant public health measures in order to reduce its spread. Current forecasts estimate an unprecedented global crude oil demand reduction for 2020 that has resulted in a significant decrease in current and future crude oil prices.

Crude oil prices appear to have reached a bottom in the second quarter of 2020, with unprecedented negative WTI benchmark prices being reached in April 2020. Crude oil production curtailments both by OPEC and non-OPEC members, combined with countries starting the process to re-open their economies in the second quarter, resulted in benchmark WTI prices rebounding to USD$40.89 per barrel in the third quarter of 2020. The global economic impacts of COVID-19 and the estimated length of the pandemic continues to evolve, with new waves of infections potentially impacting the ability of countries to fully re-open their economies.

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

Canadian natural gas prices have improved in 2020 as changes to the priority service for the Nova Gas Transmission Ltd. natural gas pipeline to allow deliveries of natural gas into storage during seasonal gas demand lows and maintenance. This additional storage capacity has resulted in a re-balancing of the Canadian natural gas market and has significantly narrowed the Canadian/US natural gas differentials.

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

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

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

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

While the length and severity of the impacts of COVID-19 on crude oil demand and pricing is currently uncertain, management believes that the long-term viability of the oil and gas industry remains intact and commodity prices will begin to improve once COVID related restrictions on the worldwide economy dissipates; however the COVID-19 pandemic could have a more significant longer term impact on the oil and gas market.

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

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

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

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

Non-GAAP financial measures

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

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

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2020**	2019	%	**2020**	2019	%
Cash provided by (used in) operating activities	**(8,610)**	14,640	-159	**55,991**	127,092	-56
Change in non-cash working capital	**17,191**	24,137	-29	**(9,012)**	6,654	-235
Funds from operations	**8,581**	38,777	-78	**46,979**	133,746	-65
Settlement of decommissioning obligations	**421**	396	6	**1,095**	2,120	-48
Adjusted funds from operations	**9,002**	39,173	-77	**48,074**	135,866	-65

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

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

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

Other KPI

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

BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company’s operations or financial results. In addition, a risk may exist on the collectability of the $15 million holdback from the Inga Asset Disposition, which is currently held in trust pending customary indemnifications provisions.

A discussion of business risks, as well as economic and industry factors affecting the Company is included in Kelt’s annual MD&A for the year ended December 31, 2019, dated March 9, 2020. Additional information is included in Kelt’s Annual Information Form dated March 6, 2020 which can be found at www.sedar.com

BUSINESS OUTLOOK

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

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

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.

RE-INSTATING 2020 GUIDANCE

As of the date of this MD&A, Kelt has provided the following guidance for 2020. Its previous 2020 corporate guidance that was disclosed in the Company’s news release on March 17, 2020 and in its MD&A for the year ended December 31, 2019 dated March 9, 2020 was withdrawn due to the uncertainty in market conditions as a result of the COVID 19 pandemic.

Capital expenditures for 2020 before the Inga Asset Disposition are forecasted at $145.0 million, which includes $68.5 million for drilling and completions, and $75.5 million for facilities, pipeline and well equipment. Drilling and completion expenditures include the drilling of five wells and the completion of two wells in the fourth quarter of 2020. Four wells will be drilled but un-completed (“DUC”) as of December 31, 2020.

Kelt expects its average 2020 production to be approximately 24,400 BOE per day, weighted approximately 44% oil and NGLs and 56% gas. WTI crude oil prices are forecasted to average US$38.00 per barrel, Canadian Light Sweet prices are forecasted to average $44.16 per barrel, NYMEX natural gas prices are forecasted to average US$2.10 per mmbtu and AECO natural gas prices are forecasted to average US$1.80 per mmbtu.

The average exchange rate is expected to average US$/CA$ 0.740 in 2020. With Kelt’s 2020 commodity price assumptions and forecasted production, the Company estimates adjusted funds from operations of $57.0 million in 2020.

Kelt expects to exit 2020 with no bank debt and a positive working capital surplus of $30.0 million.

(CA$ millions, except as otherwise indicated)	**2020 Guidance**
Average Production	
Oil and NGLs (bbls/d)	**10,800**
Gas (mmcf/d)	**81,600**
Combined (BOE/d)	**24,400**
Production per million common shares (BOE/d)	**130**
Forecasted Average Commodity Prices	
WTI oil price (US$/bbl)	**38.00**
Canadian Light Sweet ($/bbl)	**44.16**
NYMEX natural gas price (US$/MMBTU)	**2.10**
AECO natural gas price (US$/MMBTU)	**1.80**
Average Exchange Rate (US$/CA$)	**0.74**
Capital Expenditures	
Drilling & completions	**68.5**
Facilities, pipeline & well equipment	**75.5**
Land & seismic	**3.0**
Property acquisitions and dispositions (before Inga Asset Disposition)	**(2.0)**
Total Capital Expenditures before Inga Asset Disposition	**145.0**
Inga Asset Disposition	**(504.0)**
Net Capital Expenditures	**(359.0)**
Adjusted funds from operations (1)	**57.0**
Per common share, diluted	**0.30**
Bank debt, at year-end	**-**
Working capital surplus, at year-end (1)	**(30.0)**
Weighted average common shares outstanding (millions)	**188.1**

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

2021 BUDGET

The Company's Board of Directors has approved a capital expenditure budget of $90.0 million for 2021. Kelt expects to drill 10 net wells, including one water disposal well, and expects to complete 12 net wells. The Company expects to have five net DUC wells by the end of 2021. The 2021 capital expenditures are expected to be allocated as follows: $58.5 million for drilling and completing wells, $27.5 million for facilities, pipeline and equipment and $4.0 million for land and seismic.

Forecasted average production for 2021 is estimated to be approximately 17,500, representing an estimated 25% growth from the fourth quarter of 2020. The fourth quarter is the first full quarter for Kelt following the Inga Asset Disposition and production is expected to average 14,000 BOE per day. Kelt's forecasted 2021 production will be weighted approximately 37% to oil and NGLs and 63% to natural gas.

WTI crude oil prices are forecasted to average US$38.50 per barrel in 2021, and Canadian Light Sweet is forecasted to average $46.23 per barrel in 2021, an increase of 1% and 5% respectively over the forecasted 2020 prices. Natural gas prices are forecast to average US$2.40 per mmbtu for AECO and US$3.10 per mmbtu for NYMEX in 2021, an increase of 33% and 48% respectively over the forecasted 2020 prices.

The Company is forecasting 2021 adjusted funds from operations of $66.5 million and $0.35 per common share, diluted, an increase of 17% over 2020 guidance. Kelt estimates a working capital surplus of $4.0 million at the end of December 31, 2021.

The table below outlines the Company's forecast assumptions and financial and operating results for 2021 with a comparison to the latest guidance for 2020:

(CA$ millions, except as otherwise indicated)	**2021 Budget**	**2020 Guidance**	**% Change**
Average Production			
Oil and NGLs (bbls/d)	**6,500**	**10,800**	-40
Gas (mmcf/d)	**66,000**	**81,600**	-19
Combined (BOE/d)	**17,500**	**24,400**	-28
Production per million common shares (BOE/d)	**93**	**130**	-28
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**38.50**	**38.00**	1
Canadian Light Sweet ($/bbl)	**46.23**	**44.16**	5
NYMEX natural gas price (US$/MMBTU)	**3.10**	**2.10**	48
AECO natural gas price (US$/MMBTU)	**2.40**	**1.80**	33
Average Exchange Rate (US$/CA$)	**0.75**	**0.74**	1
Capital Expenditures			
Drilling & completions	**58.5**	**68.5**	-15
Facilities, pipeline & well equipment	**27.5**	**75.5**	-64
Land & seismic	**4.0**	**3.0**	33
Property acquisitions and dispositions	**-**	**(2.0)**	NA
Total Capital Expenditures before Inga Asset Disposition	**90.0**	**145.0**	-38
Inga Asset Disposition	**-**	**(504.0)**	NA
Net Capital Expenditures	**90.0**	**(359.0)**	NA
Adjusted funds from operations (1)	**66.5**	**57.0**	17
Per common share, diluted	**0.35**	**0.30**	17
Bank debt, at year-end	**-**	**-**	NA
Working capital surplus, at year-end (1)	**(4.0)**	**(30.0)**	-87
Weighted average common shares outstanding (millions)	**188.6**	**188.1**	-

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

Kelt will reassess its 2021 capital expenditure plans after the first quarter of 2021 in the event that actual commodity prices differ materially from the Company's forecasted prices. The Company will retain the flexibility to either increase or decrease capital spending plans accordingly.

A 10% increase/decrease in the Company's forecasted average oil/NGLs price for 2021 would increase/decrease forecasted adjusted funds from operations by approximately $6.7 million. A 10% increase/decrease in the Company's average gas price forecasted for 2021 would increase/decrease adjusted funds from operations by approximately $6.0 million. A 5% increase/decrease in the forecasted average exchange rate would increase/decrease adjusted funds from operations by approximately $6.8 million.

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

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2020 and 2021. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

ADDITIONAL INFORMATION

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

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

(CA$ thousands)	[Notes]	**September 30, 2020**	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		**135,536**	8,365
Accounts receivable and accrued sales	[14]	**16,324**	44,972
Prepaid expenses, deposits and other		**16,594**	2,226
Derivative financial instruments	[14]	**313**	-
Total current assets		**168,767**	55,563
Investment in securities	[14]	**-**	5,600
Exploration and evaluation assets	[6]	**54,273**	73,891
Property, plant and equipment	[7]	**601,711**	1,470,411
Total assets		**824,751**	**1,605,465**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**36,191**	76,072
Derivative financial instruments	[14]	**2,778**	2,305
Deferred premium on flow-through shares		**-**	1,346
Decommissioning obligations	[10]	**1,483**	2,094
Financing liability	[11]	**-**	771
Lease liability	[12]	**731**	1,055
Convertible debentures	[9]	**89,910**	-
Total current liabilities		**131,093**	83,643
Bank debt	[8]	**-**	300,000
Convertible debentures	[9]	**-**	82,789
Deferred income tax liability		**-**	56,429
Decommissioning obligations	[10]	**115,879**	157,929
Lease liability	[12]	**917**	1,613
Total liabilities		**247,889**	682,403
SHAREHOLDERS' EQUITY			
Shareholders' capital	[13]	**1,141,232**	1,137,121
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[9]	**12,843**	12,843
Contributed surplus		**25,254**	24,739
Retained earnings (deficit)		**(544,799)**	(193,973)
Total shareholders' equity		**576,862**	923,062
Total liabilities and shareholders' equity		**824,751**	1,605,465
Commitments	[16]		

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

On behalf of the Board of Directors:

[signed] *[signed]*

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

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands, except per share amounts)	[Notes]	**2020**	2019	**2020**	2019
Revenue					
Petroleum and natural gas sales	[15]	**48,823**	93,274	**165,195**	**296,593**
Royalties		**(1,947)**	(4,585)	**(7,130)**	**(15,695)**
		46,876	88,689	**158,065**	**280,898**
Expenses					
Production		**15,987**	25,448	**72,987**	**74,241**
Transportation		**7,453**	13,443	**27,348**	**40,321**
Cost of purchases		**1,749**	4,930	**6,365**	**12,850**
Financing		**4,900**	5,930	**17,611**	**16,468**
General and administrative		**1,845**	1,746	**5,470**	**6,412**
Share based compensation	[13]	**1,315**	1,726	**4,398**	**5,402**
Exploration and evaluation	[6]	**2,020**	300	**2,963**	**873**
Depletion, depreciation and impairment	[7]	**19,106**	42,065	**431,091**	**117,007**
		54,375	95,588	**568,233**	**273,574**
Gain (loss) on derivative instruments	[14]	**(2,462)**	2,283	**13,561**	**(1,514)**
Foreign exchange gain (loss)		**(73)**	12	**112**	**(165)**
Unrealized gain (loss) on investment	[14]	**(5,600)**	-	**(5,600)**	**600**
Gain (loss) on sale of assets	[5]	**(5,279)**	1,103	**(3,576)**	**6,003**
Unrealized loss on redemption of convertible debentures	[9]	**(3,481)**	-	**(3,481)**	**-**
Premium on flow-through shares		**-**	-	**1,346**	**-**
Other income		**314**	67	**953**	**562**
Other expenses		**-**	-	**(401)**	-
Profit (loss) before taxes		**(24,080)**	(3,434)	**(407,254)**	**12,810**
Deferred income tax recovery (expense)		**-**	525	**56,428**	**(3,610)**
Profit (loss) and comprehensive income (loss)		**(24,080)**	(2,909)	**(350,826)**	**9,200**
Profit (loss) per common share					
Basic		**(0.13)**	(0.02)	**(1.87)**	**0.05**
Diluted		**(0.13)**	(0.02)	**(1.87)**	**0.05**

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

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

		Shareholders' capital						
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2019		187,786	1,137,121	(57,668)	12,843	24,739	(193,973)	923,062
Loss and comprehensive loss		-	-	-	-	-	(350,826)	(350,826)
Exercise of stock options	[13]	231	331	-	-	(103)	-	228
Vesting of restricted share units	[13]	488	3,780	-	-	(3,780)	-	-
Share based compensation	[13]	-	-	-	-	4,398	-	4,398
Balance at September 30, 2020		**188,505**	**1,141,232**	**(57,668)**	**12,843**	**25,254**	**(544,799)**	**576,862**

Balance at December 31, 2018		184,003	1,119,232	(57,668)	12,843	19,713	(200,324)	893,796
Initial adoption of IFRS 16		-	-	-	-	-	(221)	(221)
Profit and comprehensive income		-	-	-	-	-	9,200	9,200
Exercise of stock options	[13]	4	18	-	-	(5)	-	13
Vesting of restricted share units	[13]	284	1,531	-	-	(1,531)	-	-
Share based compensation	[13]	-	-	-	-	5,402	-	5,402
Balance at September 30, 2019		184,291	1,120,781	(57,668)	12,843	23,579	(191,345)	908,190

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

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

(CA$ thousands)	[Notes]	Three months ended September 30 **2020**	Three months ended September 30 2019	Nine months ended September 30 **2020**	Nine months ended September 30 2019
Operating activities					
Profit (loss) and comprehensive income (loss)		**(24,080)**	(2,909)	**(350,826)**	9,200
Items not affecting cash:					
Accretion		**1,599**	1,851	**5,208**	5,516
Share based compensation		**1,315**	1,726	**4,398**	5,402
Exploration and evaluation		**2,020**	300	**2,963**	873
Depletion, depreciation and impairment	[7]	**19,106**	42,065	**431,091**	117,007
Unrealized (gain) loss on derivative financial instruments	[14]	**(3,886)**	(2,224)	**158**	906
Unrealized (gain) loss on investment in securities	[14]	**5,600**	-	**5,600**	(600)
Unrealized loss on redemption of convertible debentures	[9]	**3,481**	-	**3,481**	-
Premium on flow-through shares		**-**	-	**(1,346)**	-
(Gain) loss on sale of assets	[5]	**5,279**	(1,103)	**3,576**	(6,003)
Deferred income tax expense (recovery)		**-**	(525)	**(56,428)**	3,610
Other		**(202)**	(8)	**199**	(45)
Cash premiums on derivatives		**(1,230)**	-	**-**	-
Settlement of decommissioning obligations	[10]	**(421)**	(396)	**(1,095)**	(2,120)
Change in non-cash operating working capital	[17]	**(17,191)**	(24,137)	**9,012**	(6,654)
Cash provided by operating activities		**(8,610)**	14,640	**55,991**	127,092
Financing activities					
Increase (decrease) in bank debt	[8]	**(320,300)**	32,425	**(300,000)**	114,537
Increase (decrease) in financing liability		**(243)**	(19)	**28,024**	791
Proceeds on exercise of stock options	[13]	**228**	-	**228**	13
Repayment of lease liability principle	[12]	**(264)**	(216)	**(886)**	(896)
Cash provided by financing activities		**(320,579)**	32,190	**(272,634)**	114,445
Investing activities					
Exploration and evaluation assets	[6]	**(434)**	(6,551)	**(2,692)**	(8,447)
Property, plant and equipment	[7]	**(6,413)**	(46,645)	**(125,152)**	(244,349)
Property acquisitions	[5]	**-**	(998)	**(15)**	(4,000)
Property dispositions	[5]	**504,168**	1,537	**506,286**	5,155
Investment in securities		**-**	-	**-**	(4,000)
Change in non-cash investing working capital	[17]	**(32,750)**	6,028	**(34,613)**	7,926
Cash provided by (used in) investing activities		**464,571**	(46,629)	**343,814**	(247,715)
Impact of foreign currency on cash balances		**-**	8	**-**	45
Net change in cash and cash equivalents		**135,382**	209	**127,171**	(6,133)
Cash and cash equivalents, beginning of period		**154**	113	**8,365**	6,455
Cash and cash equivalents, end of period		**135,536**	322	**135,536**	322

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

KELT EXPLORATION LTD.
NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS
AS AT AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020
[UNAUDITED]

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

1. DESCRIPTION OF THE BUSINESS

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

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

2. COVID-19 and Significant Judgements and Estimates

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

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

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

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

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on November 9, 2020 for issue on November 10, 2020.

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2019.

b) Basis of measurement

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

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

Acquisitions	**September 30, 2020**	December 31, 2019
Exploration and evaluation assets	**2,001**	6,969
Property, plant and equipment	**965**	828
Decommissioning obligations	**(950)**	(614)
Total assets (liabilities) acquired	**2,016**	7,183
Consideration		
Cash consideration	**(15)**	(4,002)
Non-cash consideration	**(2,001)**	(3,181)
Total consideration	**(2,016)**	(7,183)

Dispositions	**September 30, 2020**	December 31, 2019
Exploration and evaluation assets	**(19,525)**	(2,900)
Property, plant and equipment	**(565,170)**	28
Decommissioning obligations	**42,917**	889
Financing and other liabilities	**29,915**	-
Carrying value of net (assets) liabilities disposed	**(511,863)**	(1,983)
Consideration		
Cash consideration, after closing adjustments (1)	**491,286**	5,704
Deposit held in trust	**15,000**	-
Non-cash consideration	**2,001**	3,181
Total consideration	**508,287**	8,885
Gain (loss) on sale of assets	**(3,576)**	6,902

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

On August 21, 2020, Kelt completed the disposition of its assets located at Inga, Fireweed and Stoddart in British Columbia (“Inga Assets”), for consideration of $504.6 million after closing adjustments. The disposition (hereinafter referenced as the “Inga Assets Disposition”) had an effective date of July 1, 2020. The Inga Assets had a carrying value of $510.9 million, resulting in a loss on sale of $6.3 million.

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback amount of $15 million, currently held in trust. The holdback will be released to the vendor over the course of 12 months from the transaction closing date of August 21, 2020 in three equal amounts, provided no claims are brought forth by the purchaser.

6. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

	September 30, 2020	December 31, 2019
Balance, beginning of period	**73,891**	119,282
Additions	**2,692**	9,001
Property acquisitions [note 5]	**2,001**	6,969
Property dispositions [note 5]	**(19,525)**	(2,900)
Transfers to property, plant and equipment	**(1,823)**	(53,406)
Expired mineral leases and impairments	**(2,963)**	(5,055)
Balance, end of period	**54,273**	73,891

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**September 30, 2020**	December 31, 2019
Development and production ("D&P") assets	**600,178**	1,467,577
Right-of-use ("ROU") assets	**1,384**	2,338
Corporate assets	**149**	496
Total net carrying value of property, plant and equipment	**601,711**	1,470,411

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2018	1,878,643	4,029	-	1,882,672
Initial adoption of IFRS 16	-	-	2,666	2,666
Additions	307,554	771	953	309,278
Property acquisitions [note 5]	828	-	-	828
Property dispositions [note 5]	28	-	(118)	(90)
Decommissioning costs	14,971	-	-	14,971
Transfers from E&E	53,406	-	-	53,406
Balance at December 31, 2019	**2,255,430**	**4,800**	**3,501**	**2,263,731**
Additions	**125,063**	**89**	**884**	**126,036**
Property acquisitions [note 5]	**965**	-	**-**	**965**
Property dispositions [note 5]	**(1,153,954)**	**-**	**(1,882)**	**(1,155,836)**
Decommissioning costs	**(1,167)**	**-**	**-**	**(1,167)**
Transfers from E&E	**1,823**	**-**	**-**	**1,823**
Balance at September 30, 2020	**1,228,160**	**4,889**	**2,503**	**1,235,552**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2018	633,465	3,518	-	636,983
Depletion and depreciation expense	154,388	786	1,222	156,396
Dispositions	-	-	(59)	(59)
Balance at December 31, 2019	**787,853**	**4,304**	**1,163**	**793,320**
Depletion and depreciation expense	**93,320**	**436**	**835**	**94,591**
Impairment	**336,500**	**-**	**-**	**336,500**
Dispositions [note 5]	**(589,691)**	**-**	**(879)**	**(590,570)**
Balance at September 30, 2020	**627,982**	**4,740**	**1,119**	**633,841**

Future capital costs required to develop proved reserves in the amount of $480.8 million (December 31, 2019 – $1,378.9 million) are included in the depletion calculation for development and production assets.

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

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

On August 21, 2020, the Company completed the disposition of the Inga Assets, which comprised the majority of the Company's BC CGU assets. In the second quarter of 2020, the BC CGU was impaired by $259.4 million (before-tax) based on the sale which occurred in the third quarter of 2020.

As at September 30, 2020, the Company concluded that there are no changes to impairments indicators as compared to the prior quarter therefore an impairment test was not conducted.

8. BANK DEBT

Concurrent with the closing of the sale of the Inga Assets, the Company has paid out all amounts outstanding under its previous $350.0 million revolving committed term credit facility with a syndicate of lenders and entered into a new $20.0 million demand revolving credit facility ("the Credit Facility") with a Canadian chartered bank. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

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

9. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2018	89,910	78,390	12,843
Accretion of discount	-	4,399	-
Balance at December 31, 2019	**89,910**	**82,789**	**12,843**
Accretion of discount	**-**	**3,640**	**-**
Loss on redemption	**-**	**3,481**	**-**
Balance at September 30, 2020	**89,910**	**89,910**	**12,843**

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at September 30, 2020 with a maturity date of May 31, 2021 ("Maturity Date"). On or after May 31, 2020 and prior to the Maturity Date, the Debentures may be redeemed by the Company at a redemption price equal to their principal amount plus accrued and unpaid interest.

In the third quarter of 2020, the Company issued a redemption notice to registered holders of the Debentures with a redemption date of October 3, 2020 (note 18). Pursuant of the notice, the Company will redeem all outstanding convertible debentures, plus all accrued and unpaid interest up to but excluding the date of redemption. As a result of the redemption notice, on September 30, 2020 the carrying value of the convertible debentures was increased to the redemption value of $89.9 million, with a $3.5 million loss being recorded in the third quarter of 2020.

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). At September 30, 2020, the fair value of the Debentures was $90.0 million (note 14).

10. DECOMMISSIONING OBLIGATIONS

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

	September 30, 2020	December 31, 2019
Balance, beginning of period	**160,023**	144,667
Obligations incurred	**773**	4,995
Obligations acquired [note 5]	**950**	614
Obligations disposed [note 5]	**(42,917)**	(889)
Obligations settled	**(1,095)**	(2,334)
Changes in discount rate	**39,469**	21,373
Changes in inflation rate	**(39,736)**	(12,868)
Revisions to estimates	**(1,673)**	1,471
Accretion expense	**1,568**	2,994
Balance, end of period	**117,362**	160,023
Decommissioning obligations – current	**1,483**	2,094
Decommissioning obligations – non-current	**115,879**	157,929
Key assumptions		
Risk free rate	**1.1%**	1.8%
Inflation rate	**1.1%**	1.8%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2020 the undiscounted amount of the estimated cash flows required to settle the obligation is $117.4 million (December 31, 2019 – $160.0 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.1%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $168.0 million at September 30, 2020 (December 31, 2019 – $291.2 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

11. FINANCING LIABILITY

	September 30, 2020	**December 31, 2019**
Balance, beginning of period	**771**	-
Additions	**28,727**	810
Payments	**(1,903)**	(143)
Interest expense	**1,200**	104
Liabilities disposed [note 5]	**(28,795)**	-
Balance, end of period	**-**	771
Financing liability – current	**-**	771
Financing liability – non-current	**-**	-

As part of the disposition of the Inga Assets, the purchaser acquired $28.8 million of third party financing obligations related to a natural gas pipeline and a field compressor.

12. LEASE LIABILITY

	September 30, 2020	December 31, 2019
Balance, beginning of period	**2,668**	2,888
Additions	**884**	953
Liabilities disposed [note 5]	**(1,018)**	(59)
Interest expense	**126**	165
Lease payments	**(1,012)**	(1,279)
Balance, end of period	**1,648**	2,668
Lease liability – current	**731**	1,055
Lease liability – non-current	**917**	1,613

The Company has lease liabilities for contracts related to drilling rigs, office space, field equipment, and vehicle leases. The weighted average discount rate for new leases entered in the period ended September 30, 2020 was 4.8%. Payments under the Company's short-term leases were $3.7 million for the nine months ending September 30, 2020, which primarily related to short term drilling rig leases.

As part of the disposition of the Inga Assets, the purchaser acquired $0.9 million of lease liabilities related to office space, field equipment, vehicle leases and a surface lease.

13. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of September 30, 2020 (December 31, 2019 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2018	184,003	1,119,232
Issued for cash through common share offerings	3,450	17,423
Deferred premium on flow-through shares	-	(1,346)
Issued for cash on exercise of stock options	4	13
Transfer from contributed surplus on exercise of stock options	-	5
Released upon vesting of restricted share units	329	1,828
Share issue costs, net of deferred taxes ($12)	-	(34)
Balance at December 31, 2019	**187,786**	**1,137,121**
Issued for cash on exercise of stock options	**231**	**228**
Transfer from contributed surplus on exercise of stock options	**-**	**103**
Released upon vesting of restricted share units	**488**	**3,780**
Balance at September 30, 2020	**188,505**	**1,141,232**

Flow-through common shares

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

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2018	9,803	6.20
Granted	2,305	2.92
Exercised (1)	(4)	3.25
Forfeited	(227)	5.66
Expired	(1,862)	9.96
Balance at December 31, 2019	**10,015**	**4.76**
Granted	**2,710**	**1.03**
Exercised (1)	**(231)**	**0.99**
Forfeited	**(1,084)**	**4.43**
Expired	**(139)**	**7.86**
Balance at September 30, 2020	**11,271**	**3.93**

(1) The weighted average share price on the date stock options were exercised during the quarter ended September 30, 2020 was $1.62 per common share ($5.27 per common share on average during the year ended December 31, 2019).

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

	Nine months ended September 30	
	2020	2019
Risk free interest rate	**0.52%**	1.3%
Expected life (years)	**3.5**	3.5
Expected volatility (1)	**67.7%**	48.7%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.4%**	4.5%
Fair value of options granted during the year ($/share)	**0.48**	1.05

(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 September 30, 2020:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	4,207	4.2	1.76	599	2.76
$3.51 to $6.50	6,474	1.7	5.01	5,097	5.08
$6.51 to $9.50	590	2.3	7.62	426	7.59
Total	**11,271**	**2.7**	**3.93**	**6,122**	**5.03**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2018	1,097
Granted	144
Released upon vesting	(329)
Forfeited	(47)
Balance at December 31, 2019	**865**
Granted	**10**
Released upon vesting	**(488)**
Forfeited	**(9)**
Balance at September 30, 2020	**378**

Share based compensation expense

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Stock options	**593**	1,051	**2,420**	3,254
Restricted share units	**722**	675	**1,978**	2,148
Total share based compensation expense	**1,315**	1,726	**4,398**	5,402

Per share amounts

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

	Three months ended September 30		Nine months ended September 30	
(000s of common shares)	**2020**	2019	**2020**	2019
Weighted average common shares outstanding, basic	**188,126**	184,266	**187,939**	184,146
Effect of stock options and RSUs	**614**	154	**738**	571
Weighted average common shares outstanding, diluted	**188,740**	184,420	**188,677**	184,717

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit or loss per common share. For the three and nine months ended September 30, 2020, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible. The common shares issuable on conversion of the Debentures were determined to be anti-dilutive for the quarter ended September 30, 2020.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

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

Contract Type(1)(2)(3)	Notional Volume	Contract Price	Remaining Term
Crude oil derivative contracts			
MSW fixed price swap	1,500 bbl/d	CAD$32.25/bbl	Oct - Dec 2020
NGL derivative contracts			
OPIS-Conway propane fixed price swap	500 bbl/d	CAD$23.35/bbl	Oct - Dec 2020
Natural gas derivative contracts			
NYMEX fixed price swap	45,000 MMBtu/d	CAD$2.83/MMBtu	Oct 2020
NYMEX to AECO 5A differential	25,000 MMBtu/d	NYMEX less USD$0.4675/MMBtu	Oct 2020
NYMEX fixed price swap	25,000 MMBtu/d	CAD$2.90/MMBtu	Nov 2020
NYMEX fixed price swap	5,000 MMBtu/d	CAD$3.95/MMBtu	Dec 2020 - Oct 2021
AECO 5A fixed price swap(4)	4,750 MMBtu/d	CAD$2.84/MMBtu	Dec 2020 - Oct 2021

(1) West Texas Intermediate ("WTI")
(2) Mixed Sweet Blend ("MSW")
(3) NYMEX Henry Hub ("NYMEX")
(4) The fixed price swap contract is for 5,000GJ/d at a contract price of CAD$2.70/GJ, prior to converting over to MMBTU's.

Subsequent to September 30, 2020, the Company entered into the following commodity price risk management contract:

Contract Type(1)	Notional Volume	Contract Price	Term
Natural gas derivative contracts			
NYMEX fixed price swap	5,000 MMBtu/d	CAD$4.05/MMBtu	Jan 2021 - Oct 2021

(1) NYMEX Henry Hub ("NYMEX")

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. At the end of the third quarter, the Company has no amounts drawn on its Credit Facility, therefore there would be no effect on the Company's interest rate risk if the market interest rate increased or decreased.

During the third quarter of 2020, the Company paid $0.3 million to unwind all outstanding interest rate swaps. As at September 30, 2020, 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.

During the third quarter of 2020, the Company received $0.4 million for unwinding its foreign exchange risk management contract. As at September 30, 2020, 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 September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Realized gain (loss)	**(6,348)**	59	**13,719**	(608)
Unrealized loss	**3,886**	2,224	**(158)**	(906)
Loss on derivative financial instruments	**(2,462)**	2,283	**13,561**	(1,514)

Fair value measurements

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

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

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

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

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

	Carrying Value ("CV")			Fair Value		
	Gross	Netting(1)	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	313	-	313	-	313	-
Financial liabilities						
Derivative financial instrument	2,778	-	2,778	-	2,778	-
Convertible debentures [note 9]	89,910	-	89,910	89,991	-	-

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

The fair value of the convertible debentures of $90.0 million as at September 30, 2020, is based on the closing market price of $100.09 per Debenture, being the price at which the Debentures last traded in the quarter and represents the market value of the entire instrument. As at December 31, 2019, the fair value was $102.5 million based on the closing market price of $114.00 per Debenture. In the third quarter of 2020, Kelt issued a redemption notice for all outstanding convertible debentures to be redeemed on October 3, 2020 (note 18). As a result of the redemption notice, the carrying value of the convertible debentures was increased to the face value of the convertible debentures of $89.9 million, with a $3.5 million loss being recorded in the third quarter of 2020.

The estimated fair value of the Company's investments in securities is based on equity issuances and other indications of value (level three fair value hierarchy inputs). During the third quarter of 2020, the Company wrote off its investment in a private corporation as the fair value for the construction of a proposed downstream facility, which comprised the majority of the investments fair value, did not exceed its estimated cost. The write-off resulted in an unrealized loss on Kelt's investment in securities of $5.6 million.

Credit Risk

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

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

Accounts receivable and accrued sales	**September 30, 2020**	December 31, 2019
Joint venture partners	**2,524**	2,320
Oil and gas marketers	**11,269**	37,548
GST input tax credits	**738**	4,802
Risk management contracts	**335**	189
Other	**1,458**	113
Total	**16,324**	44,972

During the quarter ended September 30, 2020, sales to three oil and gas marketers each individually represented more than 10% of total sales. Sales to these marketers account for approximately 32%, 26%, and 11%, of total sales, respectively. During the comparative period ended December 31, 2019, sales to three oil and gas marketers accounted for approximately 20%, 19%, and 38% of total sales, respectively. Kelt has mitigated some of its credit risk through parental guarantees (with terms ranging from two to five years) and through the majority of its sales to oil and gas marketers which have been rated investment-grade by a reputable ratings agency.

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

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. As of September 30, 2020, the collection risk on outstanding accounts receivable balances is considered low as only 6.0% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2019 – 5.1%).

Liquidity Risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities as at September 30, 2020 include accounts payable, derivative financial instruments, financing liability, and convertible debentures. 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 from time to time. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements.

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

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

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

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	36,191	-	-	**36,191**
Derivative financial instruments	2,778	-	-	**2,778**
Convertible debentures (1)	89,910	-	-	**89,910**
Lease liability	731	917	-	**1,648**
Total	**129,610**	**917**	**-**	**130,527**

(1) The contractual maturity analysis includes semi-annual cash interest payments at the fixed coupon rate of 5.0% (included in Accounts Payable and Accrued Liabilities). The maturity analysis assumes that the $89.9 million principal amount of the Debentures is repaid in full on October 3, 2020. Refer to additional information regarding the Debentures in note 9.

Capital Management

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

In the third quarter, Kelt sold its Inga Assets for cash proceeds of $510.0 million before closing adjustments. In addition, the purchaser assumed $28.8 million of financing liabilities and $1.1 million of lease and other liabilities. Proceeds of the disposition were initially used to repay the Company's outstanding bank debt resulting in a positive working capital surplus of $127.6 million at September 30, 2020.

Subsequent to quarter end, Kelt redeemed its outstanding convertible debentures, plus accrued interest, for $91.4 million (note 18). Following the repayment of the bank debt, disposition of the financing obligations and redemption of the convertible debentures Kelt is without any long-term bank or financial obligations.

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

	September 30, 2020	December 31, 2019
Bank debt	**-**	300,000
Working capital deficiency (surplus) (1)	**(127,584)**	28,080
Net bank debt (2)	**(127,584)**	328,080
Annualized quarterly adjusted funds from operations (3)(4)	**36,008**	186,620
Net bank debt to annualized quarterly adjusted funds from operations ratio (2)	**(3.5)**	1.8

(1) Working capital does not include convertible debentures.

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

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

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

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

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at September 30, 2020, the Company is in compliance with all covenants as no bank debt has been drawn against its Credit Facility. The Company is not subject to any other externally imposed capital requirements.

15. REVENUE

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the nine months ended September 30, 2020, transportation costs incurred in relation to these contracts was $13.7 million.

Kelt has a number of variable priced long-term commodity sales contracts where the volumes under these contracts for future periods have not yet been fulfilled resulting in unsatisfied performance obligations as at the reporting date. These contracts have varying durations, with the longest individual commodity sales contract ending in October 2023.

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Oil production	**25,000**	59,646	**85,949**	168,979
Oil treating and other	**291**	109	**606**	393
NGLs production	**6,441**	6,858	**17,289**	24,347
Gas production	**15,591**	20,814	**55,313**	82,391
Gas processing and other	**208**	321	**851**	937
Marketing revenue	**1,292**	5,526	**5,187**	19,546
Total petroleum and natural gas sales	**48,823**	93,274	**165,195**	296,593

Included in accounts receivable at September 30, 2020 is $11.3 million (December 31, 2019 - $37.5 million) of accrued oil and gas sales related to September 2020 production.

16. COMMITMENTS

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

	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	2,130	10,690	10,655	10,663	10,701	39,863
Firm transportation commitments (1)	5,770	20,223	18,803	14,682	13,184	33,530
Total commitments	**7,900**	**30,913**	**29,458**	**25,345**	**23,885**	**73,393**

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on September 30, 2020 of CA$/US$1.3228.

Following the closing of the sale of the Inga Assets, approximately $278.1 million of Kelt's processing and transportation commitments were acquired by the purchaser including a take-or-pay firm processing commitment for 75 MMcf/d raw gas under a 10-year term and a firm transportation commitment on the North Montney Mainline under a 20-year term.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
Changes in non-cash working capital	**2020**	2019	**2020**	2019
Accounts receivable and accrued sales	**17,204**	2,390	**28,648**	4,930
Prepaid expenses and deposits	**(15,028)**	(1,464)	**(14,368)**	(1,297)
Accounts payable and accrued liabilities	**(52,270)**	(19,035)	**(39,881)**	(2,361)
Change in non-cash working capital	**(50,094)**	(18,109)	**(25,601)**	1,272
Relating to:				
Operating activities	**(17,191)**	(24,137)	**9,012**	(6,654)
Investing activities	**(32,750)**	6,028	**(34,613)**	7,926
Items not impacting cash	**(153)**	-	**-**	-
Change in non-cash working capital	**(50,094)**	(18,109)	**(25,601)**	1,272

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

	Three months ended September 30		Nine months ended September 30	
Cash outlays in respect of interest and taxes	**2020**	2019	**2020**	2019
Interest and standby fees on bank debt	**1,703**	1,893	**7,248**	6,604
Interest on convertible debentures (1)	**-**	-	**2,242**	2,242
Taxes (2)	**-**	-	**-**	-

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

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

18. SUBSEQUENT EVENTS

On October 3, 2020, Kelt redeemed the $89.9 million outstanding principal amount of the convertible unsecured subordinated debentures and paid accrued interest of $1.5 million. In connection with the redemption of the Debentures, the Debentures were delisted from trading on the Toronto Stock Exchange effective October 5, 2020.

ABBREVIATIONS

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

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

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

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

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

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

Douglas J. Errico
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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