THIRD QUARTER REPORT

AS AT AND FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2021

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
FINANCIAL						
Petroleum and natural gas sales	**75,761**	48,823	55	**196,240**	165,195	19
Cash provided by (used in) operating activities	**46,547**	(8,610)	641	**107,658**	55,991	92
Adjusted funds from operations [(1)]	**36,336**	9,002	304	**93,239**	48,074	94
Basic ($/ common share) [(1)]	**0.19**	0.05	280	**0.49**	0.26	88
Diluted ($/ common share) [(1)]	**0.19**	0.05	280	**0.49**	0.25	96
Net income (loss) and comprehensive income (loss)	**3,752**	(24,080)	116	**61,260**	(350,826)	117
Basic ($/ common share)	**0.02**	(0.13)	115	**0.32**	(1.87)	117
Diluted ($/ common share)	**0.02**	(0.13)	115	**0.32**	(1.87)	117
Capital expenditures, net of dispositions	**71,162**	(497,321)	114	**146,393**	(378,427)	139
Total assets	**872,212**	824,751	6	**872,212**	824,751	6
Net debt (surplus) [(1)]	**28,174**	(132,263)	121	**28,174**	(132,263)	121
Convertible debentures	**-**	89,910	-100	**-**	89,910	-100
Shareholders' equity	**668,561**	576,862	16	**668,561**	576,862	16
Weighted average shares outstanding (000s)						
Basic	**188,842**	188,126	-	**188,688**	187,939	-
Diluted	**191,092**	188,740	1	**190,299**	188,677	1
OPERATIONS						
Average daily production						
Oil (bbls/d)	**4,485**	5,712	-21	**4,041**	8,064	-50
NGLs (bbls/d)	**3,004**	4,286	-30	**3,120**	4,644	-33
Gas (mcf/d)	**72,789**	74,672	-3	**73,195**	90,861	-19
Combined (BOE/d)	**19,621**	22,443	-13	**19,360**	27,852	-30
Production per million common shares (BOE/d)[(1)]	**104**	119	-13	**103**	148	-30
Net realized prices, before financial instruments[(1)]						
Oil ($/bbl)	**82.35**	48.13	71	**75.71**	39.20	93
NGLs ($/bbl)	**42.45**	16.33	160	**36.51**	13.59	169
Gas ($/mcf)	**4.32**	2.24	93	**3.68**	2.20	75
Operating netbacks ($/BOE) [(1)]						
Petroleum and natural gas sales	**41.97**	23.65	77	**37.13**	21.65	72
Cost of purchases	**(0.60)**	(0.85)	-29	**(0.87)**	(0.83)	5
Combined net realized price, before financial instruments[(1)]	**41.37**	22.80	81	**36.26**	20.82	74
Realized gain (loss) on financial instruments	**(3.04)**	(3.49)	-13	**(1.93)**	1.68	-215
Combined net realized price, after financial instruments[(1)]	**38.33**	19.31	98	**34.33**	22.50	53
Royalties	**(4.40)**	(0.94)	368	**(3.31)**	(0.93)	256
Production expense	**(9.24)**	(7.74)	19	**(8.77)**	(9.56)	-8
Transportation expense	**(3.59)**	(3.61)	-1	**(3.40)**	(3.58)	-5
Operating netback [(1)]	**21.10**	7.02	201	**18.85**	8.43	124
Land holdings						
Gross acres	**778,125**	802,100	-3	**778,125**	802,100	-3
Net acres	**563,687**	581,633	-3	**563,687**	581,633	-3

(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, 2021.

The COVID-19 pandemic has had a substantial impact on people's lives and continues to impact the way companies conduct their business. Kelt's highest priority remains the health and safety of its employees, partners and the communities where it operates. The Company is proud of the dedication of its workforce to maintain safe operations and business continuity during the pandemic.

Kelt's average production for the three months ended September 30, 2021 was 19,621 BOE per day, up modestly from average production of 19,592 BOE per day during the second quarter of 2021. Average production for July and August 2021 was 21,526 BOE per day. The Company experienced production down time during the month of September 2021 due to a third-party facility turnaround maintenance program. The Progress Gas Plant, where the Company processes a significant amount of its gas production, was scheduled for a two-week turnaround maintenance operation (that typically occurs every four years) during September. However, the maintenance operation lasted close to the entire month of September. Kelt took advantage of the plant downtime to perform maintenance operations on its own facilities at Pouce Coupe/Progress during the month. In addition, during September, Kelt shut-in three high deliverability Pouce Coupe oil wells that had recently been put on production (associated gas from these wells are processed at the Progress Gas Plant) to complete two newly drilled adjacent Pouce Coupe oil wells. The completion of these two Pouce Couple oil wells had previously been planned for the fourth quarter of 2021. The Progress Gas Plant returned to full service at the end of September and all of Kelt's production processed at the Plant, including the five new Pouce Coupe oil wells are currently on-stream.

Kelt's realized average oil price during the third quarter of 2021 was $82.35 per barrel, up 71% from $48.13 per barrel in the third quarter of 2020. The realized average NGLs price during the third quarter of 2021 was $42.45 per barrel, up 160% from $16.33 per barrel in the same quarter of 2020. Kelt's realized average gas price for the third quarter of 2021 was $4.32 per Mcf, up 93% from $2.24 per Mcf in the corresponding quarter of the previous year.

For the three months ended September 30, 2021, petroleum and natural gas sales were $75.8 million and adjusted funds from operations was $36.3 million ($0.19 per share, diluted), compared to $48.8 million and $9.0 million ($0.05 per share, diluted) respectively, in the third quarter of 2020. As at September 30, 2021, the Company had net debt of $28.2 million.

Net capital expenditures incurred during the three months ended September 30, 2021 were $71.2 million. During the third quarter of 2021, the Company spent $43.6 million on drill and complete operations and $35.3 million on facilities, pipelines and equipment. Kelt was able to bring forward the drill and complete operations on two Pouce Coupe oil wells that had previously been planned for the fourth quarter of 2021.

At Oak/Flatrock, Kelt commissioned the start-up of the newly constructed Oak 6-35 facility on November 3, 2021. There are currently 11 Montney wells connected to the facility. These wells continue to clean-up and initial production rates are meeting the Company's expectations. Based on type curve estimates included in Kelt's December 31, 2020 independently prepared reserves evaluation report and using the Company's current internal 2022 commodity price forecast, these wells would generate approximately $5.4 million of operating cash flow per well in the first year at a netback of $26.50 per BOE resulting in a payback of drill and complete costs in approximately one year.

The Kelt owned Oak 6-35 facility has gas compression capability of 33.75 MMcf per day, oil handling capability of 6,290 barrels per day and water handling capability of 7,550 barrels per day. The Oak 6-35 facility is connected to a 16-inch NorthRiver Midstream Inc. ("NorthRiver") main line which flows gas to the NorthRiver McMahon Gas Plant. Kelt has an agreement with NorthRiver for firm gas processing at the McMahon Gas Plant. In addition, Kelt has entered into marketing arrangements to sell gas produced from its Oak property to various gas pricing point hubs including Station 2, Chicago (ACE), Marcellus (TZ4 L300) and Sumas.

At Wembley/Pipestone, Kelt has commenced construction of Phase 1 of its Wembley East pipeline infrastructure and anticipates commencing construction of Phase 2 of the Wembley East pipeline infrastructure during the first quarter of 2022. Upon completion of pipeline infrastructure construction, Kelt expects to bring eight new Wembley/Pipestone Montney wells on-stream.

2021 Guidance Update

Kelt's board of directors has approved an increase to the Company's capital expenditure program for 2021. Kelt expects to spend between $190.0 and $200.0 million in 2021, up from its previous forecast of $175.0 million. The Company

expects to bring forward $10.0 to $20.0 million of expenditures previously planned for 2022 to take advantage of current commodity prices. In doing so, the Company will put itself in a position to deliver additional production growth in 2022 by accelerating production start-up from certain wells.

Kelt continues to maintain its strong financial position. As at December 31, 2021, the Company expects to have net debt of between $7.6 and $17.6 million or only 0.1 times adjusted funds from operations. Subsequent to September 30, 2021, the Company entered into a new credit facility with a borrowing capacity of $100 million.

The average production forecast for 2021 remains unchanged from the Company's previous forecast of 21,500 BOE per day. Adjusted funds from operations for 2021 is forecasted to be $158.0 million, a 9% increase from its previous forecast of $145.0 million.

The following table summarizes the changes to 2021 guidance since the Company's original forecast was prepared in November 2020:

	2021 Guidance (Nov/20)	2021 Guidance (Mar/21)	2021 Guidance (May/21)	2021 Guidance (Aug/21)	**2021 Guidance (current)**	**Change from previous Guidance**
Commodity Prices						
WTI Crude Oil (USD/bbl)	38.50	59.95	60.00	63.50	**68.05**	**7%**
NYMEX Natural Gas (USD/MMBtu)	3.10	2.82	2.90	3.25	**3.54**	**9%**
Exchange Rate (CAD/USD)	1.340	1.267	1.227	1.247	**1.247**	**-**
Production						
Oil & NGLs (bbls/d)	6,500	7,145	7,850	8,000	**8,000**	**-**
Gas (MMcf/d)	66.00	71.13	78.90	81.00	**81.00**	**-**
Combined (BOE/d)	17,500	19,000	21,000	21,500	**21,500**	**-**
Financial						
P&NG Sales ($MM)	175.0	238.0	256.4	289.7	**313.7**	**8%**
Adjusted funds from Operations [(1)] ($MM)	66.5	107.0	118.0	145.0	**158.0**	**9%**
AFFO per share, diluted [(1)]	0.35	0.56	0.62	0.76	**0.83**	**9%**
Capital expenditures ($MM)	90.0	120.0	150.0	175.0	**190.0 – 200.0**	**9% – 14%**
Net debt (surplus) [(1)] ($MM)	(4.0)	(7.0)	11.0	9.0	**7.6 – 17.6**	**(16%) – 96%**

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

2022 Budget

The Company's Board of Directors has approved an initial capital expenditure budget between the range of $200.0 to $210.0 million for 2022. Kelt expects to drill 22 gross (20.8 net) wells in 2022 and expects to complete 26 gross (24.5 net) wells in 2022. The 2022 capital expenditures are expected to be allocated as follows: $125.0 to $130.0 million for drilling and completing wells, $60.0 to $65.0 million for facilities, pipeline, and equipment and $15.0 million for land and seismic.

At Wembley/Pipestone, the Company plans to commence development of its northwestern land block with a four-well pad and a three-well pad targeting the Middle Montney D3 horizon. In addition, Kelt expects to complete pipeline construction on its southeastern land block paving the way to bring on production eight new Montney wells.

At Pouce Coupe West, Kelt plans to complete two high deliverability gas wells that are expected to be drilled in the fourth quarter of 2021. In addition, the Company plans to expand its gas deliverability capability from its Pouce Coupe West land block by constructing a pipeline connecting to existing gas processing facilities. At Pouce Coupe, the Company expects to drill and complete a four-well pad in the oil-prone area of its land block.

At Progress, the Company has plans to drill and complete four (2.5 net) wells in the Charlie Lake formation. These wells are adjacent to prolific Charlie Lake wells drilled by other industry producers.

At Oak/Flatrock, Kelt expects to drill and complete six wells in the second half of 2022. These wells will further delineate the large Montney land block owned by the Company.

The Company is basing its 2022 financial forecasts on commodity prices that are lower than current futures strip prices. Preparation of the 2022 budget includes the following forecasted commodity price assumptions (with estimated forecasted 2021 commodity prices shown for comparative purposes):

Commodity Price Index	**2022 Budget**	2021 Forecast	Change
WTI Crude Oil (USD/bbl)	**72.00**	68.05	6%
MSW Crude Oil (CAD/bbl)	**83.13**	79.75	4%
NYMEX Henry Hub L3D Natural Gas (USD/MMBtu)	**4.10**	3.54	16%
DAWN Gas Daily Index (USD/MMBtu)	**4.07**	3.67	11%
CHICAGO ACE Gas Daily Index (USD/MMBtu)	**4.07**	4.48	(9%)
AECO NIT 5A Gas Daily Index (CAD/GJ)	**3.56**	3.37	6%
STATION 2 Gas Daily Index (CAD/GJ)	**3.50**	3.26	7%
Exchange Rate (USD/CAD)	**0.815**	0.802	2%
Exchange Rate (CAD/USD)	**1.227**	1.247	(2%)

Financial and operating highlights for 2022 compared to the 2021 forecast are highlighted in the table below:

Financial and Operating Highlights ($ MM, unless otherwise specified)	**2022 Budget**	2021 Forecast	Change
Production			
Oil & NGLs (bbls/d)	**11,450**	8,000	43%
Gas (MMcf/d)	**111,300**	81,000	37%
Combined (BOE/d)	**30,000**	21,500	40%
P&NG Sales	**444.7**	313.7	42%
Adjusted Funds from Operations [(1)]	**245.0**	158.0	55%
AFFO per share, diluted ($/share) [(1)]	**1.28**	0.83	54%
Capital Expenditures, net of dispositions	**200.0 – 210.0**	190.0 – 200.0	NA
Net Debt (Surplus) [(1)], at year-end	**(23.8)**	7.6 – 17.6	NA

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

During a period of uncertain economic conditions driven by inflationary pressures and volatile fluctuations in commodity prices, Kelt has strategically put itself in a position of financial strength, with little to no debt and a large Montney land acreage position of 362,564 net acres or 566 net sections to continue to grow the Company's production base and generating high rates of return on capital invested by taking advantage of current multi-year high oil and gas prices. In addition to its three Montney play areas at Wembley/Pipestone, Pouce Coupe/Progress and Oak/Flatrock, the Company is also able to allocate capital resources towards developing its Charlie Lake play consisting of 68,272 net acres or 107 net sections in Alberta.

Kelt will reassess its 2022 capital expenditure plans during the first quarter of 2022 as it retains the flexibility to either increase or decrease capital spending plans according to fluctuations in commodity prices.

Management looks forward to updating shareholders with 2021 year-end results on or about March 10, 2022.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
November 10, 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

This Management's Discussion and Analysis ("MD&A") is dated November 10, 2021 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three and nine months ended September 30, 2021 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2020. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's Board of Directors approved and authorized the consolidated interim financial statements for issue on November 10, 2021.

GENERAL ADVISORY

This MD&A uses "funds flow", "adjusted funds from operations", "annualized quarterly adjusted funds from operations", "funds flow per common share", "netback", "operating netback", "petroleum and natural gas sales before marketing revenue" "petroleum and natural gas sales after cost of purchases", "operating income", "net debt (surplus)", "net realized prices", "net debt (surplus) to annualized quarterly adjusted funds from operations ratio", and "net debt (surplus) to cash flow" which do not have standardized meanings prescribed by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures presented by other companies where similar terminology is used. For further information and reconciliation to Canadian generally accepted accounting principles "GAAP" measures, see "*Non-GAAP Financial Measure and Other Key Performance Indicators*" in this MD&A.

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

BASIS OF PRESENTATION

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

COVID-19

The COVID-19 pandemic remains a risk and continues to cast uncertainty on the global economic recovery as risks surrounding the emergence of new COVID-19 variants and the impact, if any, on commodity prices and equity markets. The Company will continue to update its significant judgments, estimates and assumptions as the understanding of the longer-term impacts of COVID-19 on commodity prices, credit availability and equity markets becomes available.

FINANCIAL AND OPERATING SUMMARY

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**75,761**	48,823	55	**196,240**	165,195	19
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Net debt (surplus) [(1)]	**28,174**	(132,263)	121	**28,174**	(132,263)	121
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**19,621**	22,443	-13	**19,360**	27,852	-30
Combined net realized price, before financial instruments [(1)]	**41.37**	22.80	81	**36.26**	20.82	74
Combined net realized price, after financial instruments [(1)]	**38.33**	19.31	98	**34.33**	22.50	53
Operating netback [(1)]	**21.10**	7.02	201	**18.85**	8.43	124

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

INGA ASSET DISPOSITION

On August 21, 2020, Kelt completed the disposition of its Inga/Fireweed assets (the “Inga Asset Disposition” or “Inga Assets”) for consideration of $503.9 million after closing adjustments. The purchaser also assumed $42.5 million of abandonment and reclamation liabilities, $28.8 million of financing liabilities and $1.1 million of lease and other liabilities. Kelt’s comparative 2020 financial and operating results include the Inga Assets until the closing of the disposition on August 21, 2020. Production from the Inga Assets was 7,524 BOE per day for the third quarter of 2020 and 12,091 BOE per day for the nine months ending September 30, 2020.

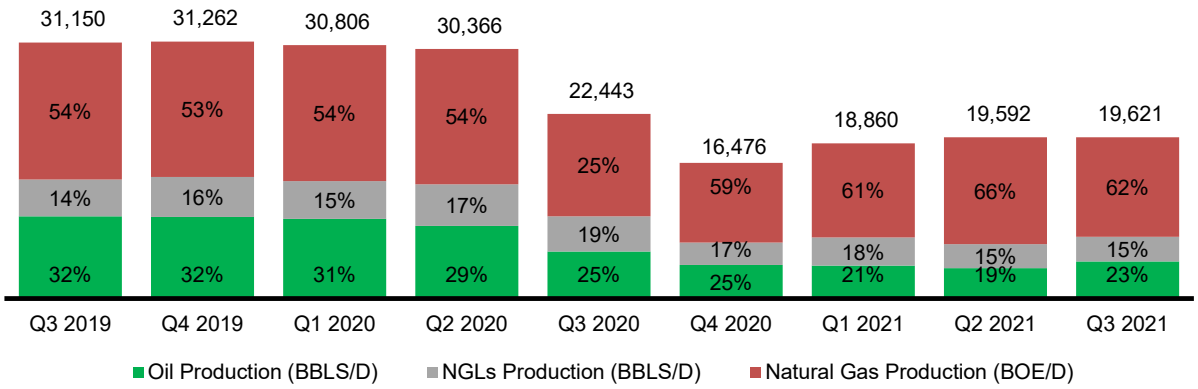
In the third quarter of 2021, Kelt’s financial and operating results are highlighted by the following:

- **Production** – Third quarter 2021 production averaged 19,621 BOE per day (38% oil/NGLs), up slightly from 19,592 BOE per day (34% oil/NGLs) in the second quarter of 2021, and a decrease of 13% from the third quarter of 2020.
- **Petroleum and natural gas sales –** Higher realized prices due to rising benchmark crude oil and natural gas prices resulted in a significant increase in petroleum and natural gas sales in 2021. For the three months ended September 30, 2021, petroleum and natural gas sales was $75.8 million, an increase of 25% from $60.6 million in the second quarter of 2021, and a 55% increase from the third quarter of 2020. Kelt’s combined net realized price before financial instruments of $41.37 per BOE increased 25% from the second quarter of 2021 and increased 81% from the third quarter of 2020.
- **Cash provided by (used in) operating activities / Adjusted funds from operations** – Cash flow by (used in) operating activities and adjusted funds from operations increased by over 90% for the nine months ended September 30, 2021 versus the comparable period in 2020. The increase was driven by an increase in petroleum and natural gas prices in 2021.

- **Net Income (loss) -** Kelt reported a net income of $3.8 million ($0.02 per common share, diluted) for the three months ended September 30, 2021, compared to a net income of $54.7 million ($0.29 per common share, diluted) in second quarter of 2021 and a net loss of $24.1 million ($0.13 per common share, diluted) in the comparative period in 2020. The positive net income in the second quarter of 2021 of $54.7 million was primarily related to an after-tax impairment reversal of $54.0 million taken in the quarter.
- **Operating netback** – Kelt's operating netback was $21.10 per BOE for the quarter ended September 30, 2021, an increase from $17.68 per BOE in the second quarter of 2021 and an increase of 201% from $7.02 per BOE during the quarter ended September 30, 2020. The increase in the operating netback in 2021 compared to 2020 was driven primarily by an increase in petroleum and natural gas benchmark prices in 2021.
- **Capital investments** – During the third quarter of 2021, capital expenditures, prior to property acquisitions and dispositions, was $80.1 million and included the drilling of 5.0 net wells and completion of 11.0 net wells. Facilities, pipeline and well equipment spend of $35.3 million was focused on new pipelines, and the construction of a facility at Kelt's Oak property. At September 30, 2021 the Company has ten drilled and completed wells at Oak which are expected to be brought on-production after the Oak facility is completed in the fourth quarter of 2021. In addition, Kelt has three wells in Alberta that it plans to bring on-production in the fourth quarter of 2021.
- **Liquidity** – The Company ended the quarter with no borrowings on its credit facility (other than outstanding letters of credit of $1.2 million) and net debt of $28.2 million (0.2 times annualized quarterly funds from operations). Subsequent to the third quarter of 2021, the Company and its lenders entered into a new $100.0 million revolving term credit facility ("New Credit Facility").

PRODUCTION

Kelt Quarterly Production (BOE/D)



	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Average daily production:						
Oil (bbls/d)	**4,485**	5,712	-21	**4,041**	8,064	-50
NGLs (bbls/d)	**3,004**	4,286	-30	**3,120**	4,644	-33
Gas (mcf/d)	**72,789**	74,672	-3	**73,195**	90,861	-19
Combined (BOE/d)	**19,621**	22,443	-13	**19,360**	27,852	-30
Oil and NGLs weighting	**38%**	45%	-14	**37%**	46%	-19

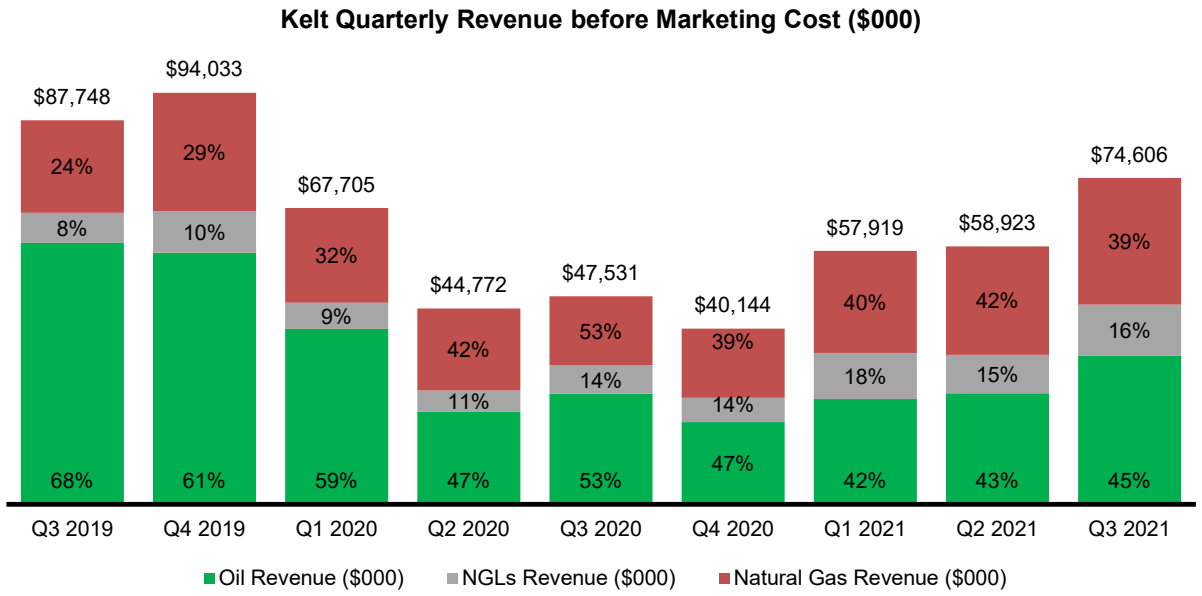
Average production for the three months ended September 30, 2021 of 19,621 BOE per day and for the nine months ended September 30, 2021 of 19,360 BOE per day decreased 13% and 30%, respectively, from the comparable periods in 2020. The decrease in production for the three and nine months ending September 30, 2021 versus the comparable period in 2020 was primarily a result of the Inga Asset Disposition which closed on August 21, 2020.

Average production for the third quarter of 2021 increased slightly compared to the second quarter of 2021. Seven wells were brought on-stream in the third quarter of 2021; three wells at Pouce Coupe, two wells at Wembley/LaGlace, and two Charlie Lake wells at Spirit River. The increase in production from these wells was partially offset by approximately 2,800 BOE per day of temporary shut-in production during the third quarter of 2021. The shut-in production was primarily a result of maintenance at third party facilities.

Oil and NGLs weighting of 38% for the three months ending September 30, 2021 decreased from 45% in the third quarter of 2020 and oil and NGLs weighting of 37% for the nine months ending September decreased from 46% from the comparable period in 2020. The decrease was a result of the sale of the Inga Assets in 2020.

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

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)	**2021**	2020	%	**2021**	2020	%
P&NG Sales before royalties and financial instruments:						
Oil	**33,908**	25,291	34	**83,309**	86,555	-4
NGLs	**11,732**	6,441	82	**31,100**	17,289	80
Gas	**28,966**	15,799	83	**77,039**	56,164	37
P&NG Sales before marketing revenue [4]	**74,606**	47,531	57	**191,448**	160,008	20
Marketing revenue [1]	**1,155**	1,292	-11	**4,792**	5,187	-8
P&NG Sales	**75,761**	48,823	55	**196,240**	165,195	19
Cost of purchases [2]	**(1,088)**	(1,749)	-38	**(4,583)**	(6,365)	-28
P&NG Sales after cost of purchases [3], [4]	**74,673**	47,074	59	**191,657**	158,830	21

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

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

(3) P&NG sales after cost of purchases includes petroleum and natural gas sales, net of the cost of the third-party volumes purchased.

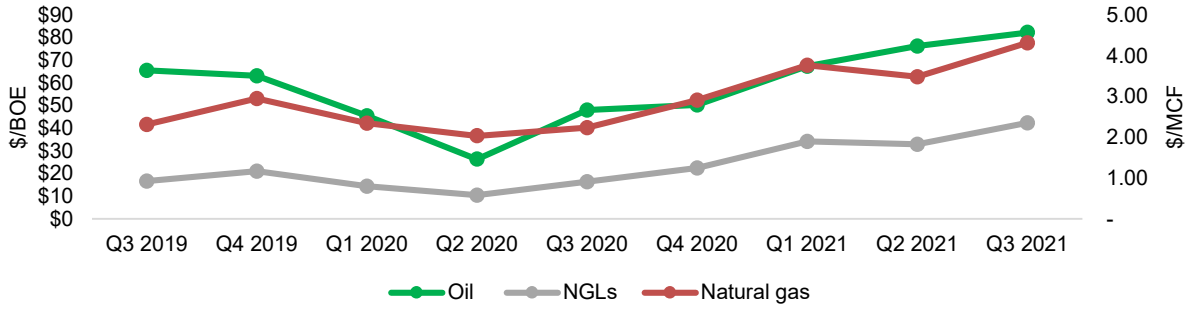
(4) Refer to additional information under the heading of *"Non-GAAP Financial Measures and Other Key Performance Indicators"*.

Petroleum and natural gas sales for the third quarter of 2021 was $75.8 million, up 55% from $48.8 million from the third quarter of 2020. Petroleum and natural gas sales for the nine months ending September 30, 2021 was $196.2

million, up 19% from the comparable period in 2020. The increase in revenue from 2020 was due to a significant increase in benchmark commodity prices, which was partially offset by lower production as a result of the sale of the Inga Assets.

Petroleum and natural gas sales of $75.8 million in the third quarter of 2021 increased 25% from $60.6 million in the second quarter of 2021. The increase quarter over quarter was primarily due to higher benchmark prices and higher oil production, partially offset by lower natural gas production.

Kelt Quarterly Realized Prices (1)



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

Net Realized and Benchmark Prices

	Three months ended September 30			Nine months ended September 30		
	2021	2020	%	**2021**	2020	%
Net realized prices						
Oil ($/bbl)	**82.35**	48.13	71	**75.71**	39.20	93
NGLs ($/bbl)	**42.45**	16.33	160	**36.51**	13.59	169
Gas ($/mcf)	**4.32**	2.24	93	**3.86**	2.20	75
Combined ($/BOE)	**41.37**	22.80	81	**36.26**	20.82	74
Average benchmark prices						
Oil and NGLs						
WTI Cushing Oklahoma (US$/bbl) (1)	**70.61**	40.89	73	**64.83**	38.17	70
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) (2)	**83.78**	49.84	68	**75.88**	43.70	74
Edmonton Pentane (3)	**89.24**	51.73	73	**80.58**	47.85	68
Edmonton Butane (3)	**59.31**	19.13	210	**41.18**	22.72	81
Edmonton Propane (3)	**53.08**	14.16	275	**37.90**	16.33	132
Edmonton Ethane (3)	**9.94**	6.28	58	**8.87**	5.82	52
Natural Gas						
NYMEX Henry Hub (US$/MMBtu) (4)	**3.90**	1.94	101	**3.12**	1.88	66
AECO 5A (CA$/MMBtu) (4)	**3.60**	2.24	61	**3.28**	2.09	57
Chicago Alliance, into Interstates (CA$/MMBtu) (5)	**5.14**	2.43	112	**5.59**	2.33	140
Dawn (CA$/MMBtu) (5)	**5.13**	2.42	112	**4.11**	2.35	75
Malin (CA$/MMBtu) (5)	**5.51**	2.53	118	**4.35**	2.55	71
Sumas (CA$/MMBtu) (5)	**5.23**	2.51	108	**4.37**	2.60	68
Station 2 (CA$/MMBtu) (5)	**3.43**	2.25	52	**3.16**	2.07	53
Average exchange rate (CA$/US$) (6)	**1.2601**	1.3316	-5	**1.2516**	1.3539	-8

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

(2) Source: Tidal Energy Marketing.

(3) Source: Sproule Associates Limited.

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

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

(6) Source: Bank of Canada.

Combined Net Realized Price

Kelt's combined net realized price increased 81% to $41.37 per BOE in the third quarter of 2021 and increased 74% to $36.26 per BOE in the nine months ending September 30, 2021 versus the comparable periods in 2020. Benchmark prices for crude oil, natural gas and natural gas liquids have all increased in 2021 as global economies re-opened following the COVID-19 pandemic closures causing increased demand for commodities.

Oil prices

Benchmark WTI crude oil prices increased 73% for the quarter ended September 30, 2021 and increased 70% for the nine months ended September 30, 2021 versus the comparable periods in 2020. Benchmark WTI crude oil prices increased 7% in the third quarter of 2021 from the second quarter of 2021 to an average of $70.61 per BOE. The increase was primarily due to continued production supply curtailments from OPEC+ countries, on-going limited capital directed towards production growth in non-OPEC nations, and a significant reduction of global crude inventories as crude oil demand increased as countries exited COVID-19 pandemic lockdowns.

NGL prices

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

For the three months and nine months ended September 30, 2021, Kelt's realized NGLs price increased 160% and 169%, respectively, as compared to the same period in 2020. The increase was primarily due to an increase in benchmark WTI prices and regional improvements in NGLs prices.

Average benchmark propane and butane prices in the third quarter of 2021 have increased 275% and 210%, respectively, versus the third quarter of 2020. International benchmark propane and butane prices have increased significantly in 2021 due to a decrease in inventory storage levels. With a strong export market in North America for butane and propane, higher international benchmark prices have increased exports, resulting in North American inventory storage levels dropping below the five year average, pushing up domestic prices.

Natural gas prices

Canadian natural gas benchmark prices increased in 2021 as compared to 2020 due to a combination of increased Alberta and North American natural gas demand, higher US natural gas exports to Mexico and higher US LNG exports when compared to historical five-year averages. Kelt's realized natural gas price increased by 93% to $4.32 per MCF in the third quarter of 2021 and by 75% to $3.86 per MCF for the nine months ended September 30, 2021 versus comparable periods in 2020.

Kelt manages its natural gas marketing portfolio in order to maximize its netbacks. Kelt has been reducing its exposure to US natural gas markets and increasing its exposure to AECO 5A and Station 2 as the fundamentals for Canadian natural gas prices improved. Kelt's natural gas sold at US indices comprised of approximately 35% of natural gas sales for the nine months ended September 30, 2021 compared to approximately 62% for the nine months ended September 30, 2020.

RISK MANAGEMENT AND HEDGING ACTIVITIES

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

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Realized gain (loss)	**(5,488)**	(6,348)	-14	**(10,201)**	13,719	-174
Unrealized gain (loss)	**(6,698)**	3,886	-272	**(14,237)**	(158)	8911
Gain (loss) on derivative financial instruments	**(12,186)**	(2,462)	395	**(24,438)**	13,561	-280
$ per BOE	**(6.75)**	(1.19)	466	**(4.62)**	1.77	-360

Commodity price risk

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

As at September 30, 2021, the following commodity price risk management contracts are outstanding:

Contract Type[1][2][3]	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
AECO 5A fixed price swap	5,000 GJ/d	CAD$2.70/GJ	Oct 2021
NYMEX fixed price swap	25,000 MMBtu/d	CAD$3.80/MMBtu	Oct 2021
NYMEX fixed price swap	15,000 MMBtu/d	CAD$5.37/MMBtu	Nov 2021 – Mar 2022
NYMEX fixed price swap	10,000 MMBtu/d	CAD$4.90/MMBtu	Apr – Oct 2022
NYMEX costless collar	10,000 MMBtu/d	Ceiling CAD$4.68/MMBtu Floor CAD$3.60/MMBtu	Nov 2021 – Mar 2022
Crude oil derivative contracts			
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.75 per bbl	Oct 2021 – Dec 2022

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

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure from certain U.S. dollar denominated natural gas marketing arrangements. As at November 10, 2021, there are no foreign exchange risk management contracts outstanding.

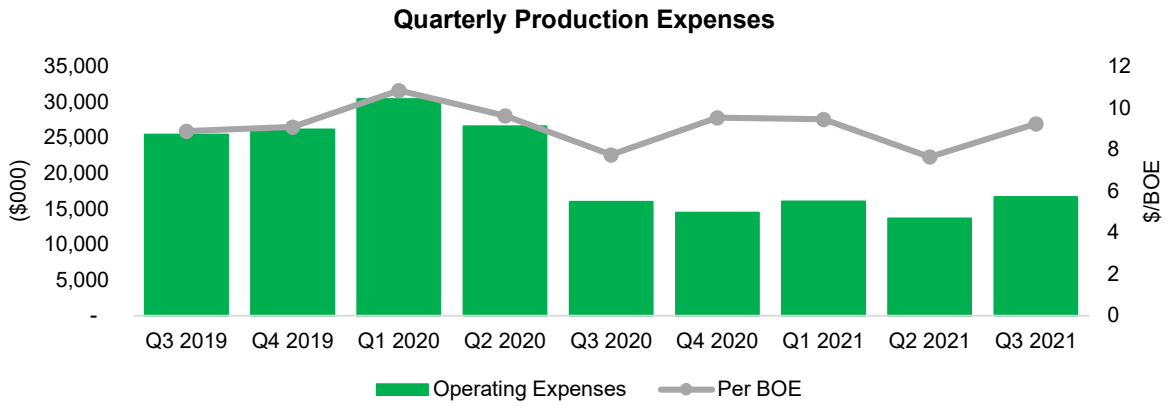
ROYALTIES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Royalties	**7,937**	1,947	308	**17,513**	7,130	146
Average royalty rate [1]	**10.6%**	4.1%	159	**9.1%**	4.5%	102
$ per BOE	**4.40**	0.94	368	**3.31**	0.93	256

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

Kelt's average royalty rate was 10.6% during the third quarter of 2021, compared to 4.1% during the third quarter of 2020 and 9.1% for the nine months ending September 30, 2021 versus 4.5% in the same period in 2020. The reason for the increase in the 2021 royalty rate was due to a lower royalty rate associated with the Inga Assets sold in 2020, fewer wells in 2021 eligible for deep well royalty deductions, higher benchmark commodity prices, and a $1.2 million royalty credit in 2020 as part of the BC Infrastructure Royalty Credit Program.

PRODUCTION EXPENSES

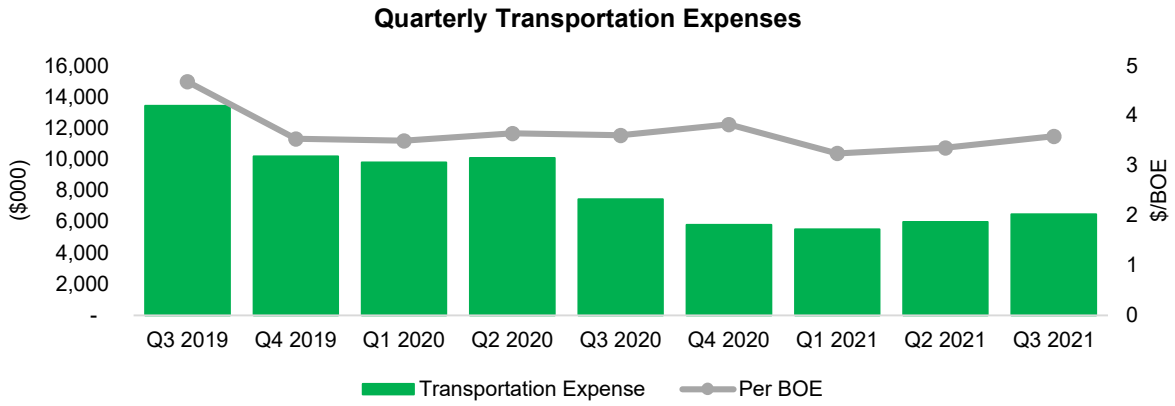


	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Production expense	**16,682**	15,987	4	**46,367**	72,987	-36
$ per BOE	**9.24**	7.74	19	**8.77**	9.56	-8

Production expenses were $16.7 million during the third quarter of 2021, up 4% from the comparative quarter in 2020. Production expenses averaged $9.24 per BOE during the third quarter of 2021, compared to $7.74 per BOE in the same period in 2020. Production expenses were lower in the third quarter of 2020 primarily due to the Company's a reduction in field activity resulting from the COVID-19 pandemic.

Production expenses of $46.4 million during the first nine months of 2021 declined 36% from $73.0 million during the nine months ending September 30, 2020. Production expenses averaged $8.77 per BOE during the nine months ending September 30, 2021, down from $9.56 per BOE for the nine months ending September 30, 2020.

TRANSPORTATION EXPENSES



	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Transportation expense [(1)]	**6,483**	7,453	-13	**17,983**	27,348	-34
$ per BOE	**3.59**	3.61	-1	**3.40**	3.58	-5

(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 during the third quarter of 2021 remained consistent compared to the third quarter of 2020 at an average of $3.59 per BOE. For the nine months ending September 30, 2021, transportation expenses averaged $3.40 per BOE, a decrease of 5% from $3.58 per BOE in the same period in 2020. Subsequent to the sale of Inga Assets in August 2020, Kelt reduced its overall exposure to US natural gas markets resulting in a decrease in natural gas transportation tolls.

FINANCING EXPENSES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Total interest expense	**31**	3,301	-99	**144**	12,403	-99
Accretion of convertible debentures	**-**	1,248	-100	**-**	3,640	-100
Accretion of decommissioning obligations	**534**	351	52	**1,442**	1,568	-8
Total financing expense	**565**	4,900	-88	**1,586**	17,611	-91
Interest expense per BOE [(1)]	**0.02**	1.60	-99	**0.03**	1.63	-98
Average principal amount outstanding during period:						
Bank debt	**-**	181,975	-100	**-**	268,851	-100
Convertible debentures	**-**	89,910	-100	**-**	89,910	-100
Average total principal amount of debt outstanding	**-**	271,885	-100	**-**	358,761	-100
Average interest rates [(3)]:						
Bank debt [(2)]	**NA**	3.6	-	**NA**	3.5	-
Convertible debentures	**NA**	5.0	-	**NA**	5.0	-

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

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

(3) For the nine months ended September 30, 2021, Kelt did not have any outstanding bank debt and convertible debentures

The Company's had no borrowings on its credit facility in the first nine months of 2021 resulting in a decrease in total interest expense from the prior year.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Salaries and benefits	**2,467**	1,630	51	**6,741**	5,118	32
Other G&A expenses	**875**	925	-5	**2,702**	3,777	-28
Gross G&A expenses	**3,342**	2,555	31	**9,443**	8,895	6
Overhead recoveries	**(1,403)**	(710)	98	**(3,078)**	(3,425)	-10
G&A expense, net of recoveries	**1,939**	1,845	5	**6,365**	5,470	16
Gross G&A ($ per BOE)	**1.85**	1.24	49	**1.79**	1.17	53
Net G&A ($ per BOE)	**1.07**	0.89	20	**1.20**	0.72	67

Gross G&A expenses of $3.3 million increased 31% in the third quarter of 2021, from $2.6 million in the third quarter of 2020. Gross G&A expenses of $9.4 million for the nine months ending September 30, 2021 increased 6% from the nine months ending September 30, 2020.

The increase in gross G&A expenses in 2021 compared to 2020 is primarily driven by lower amounts received in 2021 from the federal government's Canada Emergency Wage Subsidy program. Higher capital spend during the three months ended September 30, 2021 resulted in higher overhead recoveries during the quarter compared to the three months ended September 30, 2020.

G&A expense, net of recoveries, was $1.07 per BOE for the third quarter of 2021 compared to $0.89 per BOE during the third quarter of 2020. On a per BOE basis, G&A expenses increased in 2021 primarily due to the decrease in production following the Inga Asset Disposition.

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)	**2021**	2020	%	**2021**	2020	%
Stock options	**854**	593	44	**2,261**	2,420	-7
Restricted share units ("RSUs")	**323**	722	-55	**948**	1,978	-52
Total SBC expense	**1,177**	1,315	-10	**3,209**	4,398	-27
$ per BOE	**0.65**	0.64	2	**0.61**	0.58	5

The decrease in SBC expense during the three and nine months ended September 30, 2021 compared to the same quarter in 2020 is primarily due to fewer restricted shares units issued in recent periods.

As at September 30, 2021, stock options and RSUs outstanding represent 6.0% of total shares outstanding (December 31, 2020 – 5.5%).

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Gain (loss) on sale of assets	**660**	(5,279)	-113	**807**	(3,576)	-123

In the third quarter of 2021, the Company disposed of non-core assets in the Spirit River area for net proceeds of $8.9 million after closing adjustments. The Spirit River assets had a net carrying value of $8.7 million (property plant and equipment costs of $21.7 million, accumulated depletion and depreciation of $10.9 million, exploration and evaluation costs of $1.4 million and abandonment obligations of $3.5 million), resulting in a gain on sale of $0.2 million.

On August 21, 2020, Kelt completed the Inga Asset Disposition, located in British Columbia, for consideration of $503.9 million after closing adjustments. The Inga Assets had a carrying value of $511.0 million, subsequent to the impairment taken in the second quarter of 2020, resulting in a loss on sale of $7.1 million.

DEPLETION, DEPRECIATION AND IMPAIRMENT (REVERSAL)

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Depletion and depreciation	**22,563**	19,106	18	**64,315**	94,591	-32
Impairment (reversal)	**-**	-	-	**(70,130)**	336,500	-121
Total	**22,563**	19,106	18	**(5,815)**	431,091	-101
Depletion and depreciation ($/BOE)	**12.50**	9.25	35	**12.17**	12.39	-2
Impairment (reversal) ($/BOE)	**-**	-	-	**(13.27)**	44.09	-130

Depletion and depreciation expense of $22.6 million for the quarter ended September 30, 2021 increased by 18% from $19.1 million in the comparable period in 2020. The increase is primarily attributed to the impairment reversal taken in the second quarter of 2021 and the increase in capital expenditures in the third quarter of 2021.

Depletion and depreciation expense of $64.3 million for the nine months ended September 30, 2021 decreased by 32% from $94.6 million in comparable period in 2020. The decrease was primarily attributed to Inga Asset Disposition.

In the first quarter of 2020, crude oil prices declined significantly as a result of the COVID-19 pandemic and 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).

On August 21, 2020, the Company completed the disposition of the Inga Assets, which comprised the majority of the Company's BC CGU assets. As a result of the disposition, the BC CGU was impaired by $259.4 million (before-tax) in the second quarter of 2020, based on the transaction value contained in the Inga Asset Disposition purchase and sale agreement.

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

INCOME TAXES

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Deferred income tax expense (recovery)	**2,054**	-	-	**19,504**	(56,428)	135
Net income (loss) before taxes	**5,806**	(24,080)	124	**80,764**	(407,254)	120
Effective tax recovery rate	**35.4%**	-	-	**24.1%**	13.9%	74

Kelt's consolidated combined federal and provincial statutory tax rate averaged 23.0% and 26.0% during the three months ended September 30, 2021 and 2020, respectively. For the quarter ended September 30, 2021, a deferred income tax expense of $2.1 million was recognized.

For the quarter ended September 30, 2020, due to uncertainty regarding future taxable income as a result of the COVID-19 pandemic, Kelt did not recognize a deferred tax asset and the corresponding deferred income tax recovery.

The Company's consolidated tax pools are estimated to be approximately $773.7 million as of September 30, 2021 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**September 30 2021**	December 31 2020	% change
Canadian oil and gas property expenses (COGPE)	10-15%	**74,727**	87,273	-14
Canadian development expenses (CDE)	30-45%	**126,372**	81,882	54
Canadian exploration expenses (CEE)	100%	**34,276**	53,859	-36
Undepreciated capital cost [(1)] (UCC)	25-37.5%	**189,033**	179,396	5
Share and debt issue costs (SIC/DIC)	5 years	**328**	588	-44
Non-capital losses [(2)] (NCL)	100%	**348,994**	314,630	11
Estimated tax deductions available, end of period		**773,730**	717,628	8

(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 2041.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income and adjusted funds from operations generated during the three and nine month periods ended September 30, 2021 and 2020, respectively.

THREE MONTHS ENDED SEPTEMBER 30TH	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Petroleum and natural gas sales	**75,761**	48,823	55	**41.97**	23.65	77
Cost of purchases	**(1,088)**	(1,749)	-38	**(0.60)**	(0.85)	-29
Realized gain (loss) on financial instruments (1)	**(5,488)**	(7,213)	-24	**(3.04)**	(3.49)	-13
Royalties	**(7,937)**	(1,947)	308	**(4.40)**	(0.94)	368
Revenue, after royalties and financial instruments	**61,248**	37,914	62	**33.93**	18.37	85
Production expense	**(16,682)**	(15,987)	4	**(9.24)**	(7.74)	19
Transportation expense	**(6,483)**	(7,453)	-13	**(3.59)**	(3.61)	-1
Operating income/netback (2)	**38,083**	14,474	163	**21.10**	7.02	201
Financing expense (3)	**(31)**	(3,301)	-99	**(0.02)**	(1.60)	-99
G&A expense	**(1,939)**	(1,845)	5	**(1.07)**	(0.89)	20
Realized gain (loss) on financial instruments (2)	**-**	(365)	-100	**-**	(0.18)	-100
Realized gain (loss) on foreign exchange	**98**	(73)	-234	**0.05**	(0.04)	-225
Other income/expense	**125**	112	12	**0.07**	0.05	40
Adjusted funds from operations (2)	**36,336**	9,002	304	**20.13**	4.36	362
Basic ($ per common share) (4)	**0.19**	0.05	280			
Diluted ($ per common share) (4)	**0.19**	0.05	280			
Common shares outstanding (000s):						
Basic, weighted average	**188,842**	188,126	-			
Diluted, weighted average	**191,092**	188,740	1			

NINE MONTHS ENDED SEPTEMBER 30TH	Amount			$/BOE		
(CA$ thousands, unless otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Petroleum and natural gas sales	**196,240**	165,195	19	**37.13**	21.65	72
Cost of purchases	**(4,583)**	(6,365)	-28	**(0.87)**	(0.83)	5
Realized gain (loss) on financial instruments (1)	**(10,201)**	12,854	-179	**(1.93)**	1.68	-215
Royalties	**(17,513)**	(7,130)	146	**(3.31)**	(0.93)	256
Revenue, after royalties and financial instruments	**163,943**	164,554	-	**31.02**	21.57	44
Production expense	**(46,367)**	(72,987)	-36	**(8.77)**	(9.56)	-8
Transportation expense	**(17,983)**	(27,348)	-34	**(3.40)**	(3.58)	-5
Operating income/netback (2)	**99,593**	64,219	55	**18.85**	8.43	124
Financing expense (3)	**(144)**	(12,403)	-99	**(0.03)**	(1.63)	-98
G&A expense	**(6,365)**	(5,470)	-16	**(1.20)**	(0.72)	67
Realized gain (loss) on financial instruments (2)	**-**	865	-100	**-**	0.11	-100
Realized gain (loss) on foreign exchange	**(80)**	112	-171	**(0.01)**	0.01	-200
Other income/expense	**235**	751	-69	**0.04**	0.09	-56
Adjusted funds from operations (2)	**93,239**	48,074	94	**17.65**	6.29	181
Basic ($ per common share) (4)	**0.49**	0.26	88			
Diluted ($ per common share) (4)	**0.49**	0.25	96			
Common shares outstanding (000s):						
Basic, weighted average	**188,688**	187,939	-			
Diluted, weighted average	**190,299**	188,677	1			

(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 31, 2021, adjusted funds from operations of $36.3 million ($0.19 per share, diluted) increased by 304% from $9.0 million ($0.05 per share, diluted) during the third quarter ended September 30, 2020. During the nine months ended September 30, 2021, adjusted funds from operations of $93.2 million ($0.49 per share, diluted) increased by 94% from $48.1 million ($0.25 per share, diluted) during the nine months ended September 30, 2020. The increase in adjusted funds from operations for both the three and nine months ended September 30, 2021 compared to the same period in 2020 is primarily attributed an increase in operating income and a decrease in financing expenses.

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Net income (loss) and comprehensive income (loss)	**3,752**	(24,080)	116	**61,260**	(350,826)	117
$ per common share, basic	**0.02**	(0.13)	115	**0.32**	(1.87)	117
$ per common share, diluted [(1)(2)]	**0.02**	(0.13)	115	**0.32**	(1.87)	117
$ per BOE	**2.08**	(11.66)	118	**11.60**	(45.98)	125
Wtd avg. shares outstanding, basic (000s)	**188,842**	188,126	-	**188,688**	187,939	-
Wtd avg. shares outstanding, diluted (000s) [(1)(2)]	**191,092**	188,740	1	**190,299**	188,677	1

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit or loss per common share. For the three and nine months ended September 30, 2021, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible.

(2) The common shares potentially issuable on conversion of the debentures (prior to their redemption on October 3, 2020) were excluded from the 2020 calculation of diluted weighted average shares outstanding as they were anti-dilutive to the loss reported.

Kelt reported net income of $3.8 million ($0.02 per common share, diluted) for the three months ended September 30, 2021, compared to a net loss of $24.1 million ($0.13 per common share, diluted) in the same three month period of 2020. The increase to profit is primarily due to a $27.3 million increase in adjusted funds from operations.

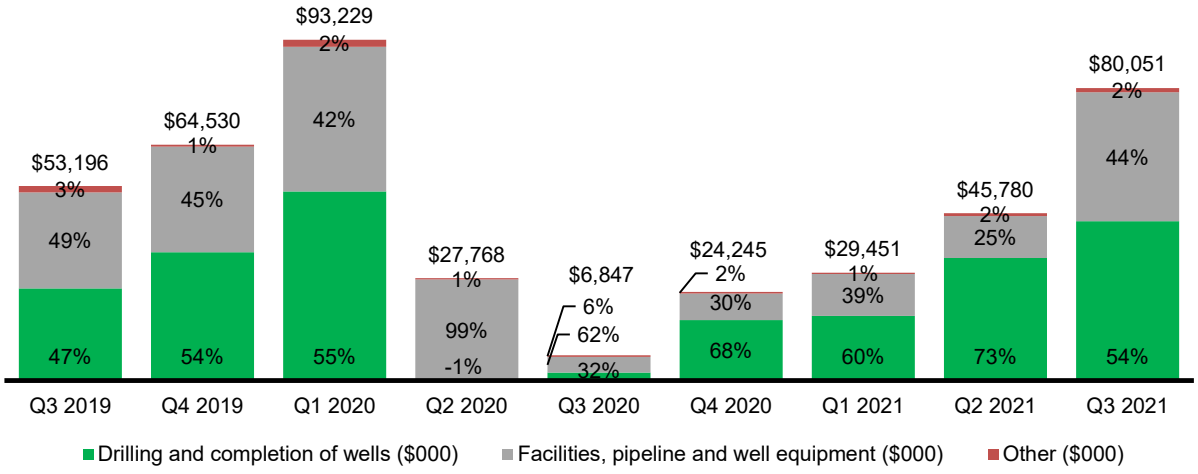
Kelt reported net income of $61.3 million ($0.32 per common share, diluted) for the nine months ended September 30, 2021, compared to a net loss of $350.8 million ($1.87 per common share, diluted) in the same period of 2020. The increase in profit is primarily due to a $45.2 million increase in adjusted funds from operations and a before-tax impairment reversal of $70.1 million ($54.0 million after-tax) compared to an impairment loss of $336.5 million ($278.0 million after-tax) in the comparative period in 2020.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

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

Capital Expenditures before A&D ($000)



	Three months ended September 30			Nine months ended September 30		
(CA$ thousands, except as otherwise indicated)	**2021**	2020	%	**2021**	2020	%
Capital expenditures:						
Lease acquisition and retention	**590**	419	41	**1,313**	1,144	15
Geological and geophysical	**2**	-	-	**41**	1,507	-97
Drilling and completion of wells	**43,572**	2,183	1896	**94,755**	53,707	76
Facilities, pipeline and well equipment	**35,262**	4,224	735	**58,159**	71,397	-19
Corporate assets	**625**	21	2876	**1,014**	89	1039
Capital expenditures, before A&D	**80,051**	6,847	1069	**155,282**	127,844	21
Property acquisitions	**200**	2,000	-90	**216**	2,016	-89
Property dispositions	**(9,089)**	(506,168)	-98	**(9,105)**	(508,287)	-98
Capital expenditures, net of dispositions	**71,162**	(497,321)	114	**146,393**	(378,427)	139

In 2020, drilling operations were suspended in the second and third quarter due to the uncertainty in commodity prices during the onset of the COVID-19 pandemic. As commodity prices recovered in 2021, Kelt utilized its strong financial position to resume its capital expenditure program in each of its operating divisions.

In the third quarter of 2021, drilling and completion costs of $43.6 million included the drilling of 5.0 net wells and completion of 11.0 net wells. Kelt's facility, pipeline and well equipment spending in the third quarter of 2021 of $35.3 million related primarily to the construction of an oil battery and gas compression facility and related pipelines at Oak.

At September 30, 2021 the Company has ten drilled and completed wells at Oak, which are expected to be brought on-production after the facility is completed in the fourth quarter of 2021. In addition to these Oak wells, Kelt has three wells in Alberta that it plans to bring on-production in the fourth quarter of 2021.

DRILLING

	Three months ended September 30			Nine months ended September 30		
Net wells	**2021**	2020	%	**2021**	2020	**%**
Drilling	**5.0**	-	-	**18.0**	9.0	100
Completion	**11.0**	-	-	**20.0**	7.0	186

CAPITAL RESOURCES AND LIQUIDITY

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

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

As of September 30, 2021 the Company had a $20.0 million demand revolving credit facility ("the Credit Facility") with a Canadian chartered bank. Currently the primary purpose of the Credit Facility is to hold the Company's letters of credit, and to allow the use of hedging activities. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

	September 30, 2021	December 31, 2020
Bank debt	**-**	-
Accounts payable and accrued liabilities	**75,535**	36,565
Cash and cash equivalents,	**(21,976)**	(31,570)
Accounts receivable and accrued sales	**(23,724)**	(20,954)
Prepaid expenses and deposits	**(1,661)**	(11,696)
Net debt (surplus) [(1)]	**28,174**	(27,655)
Annualized quarterly adjusted funds from operations [(1)(2)]	**145,344**	43,032
Net debt (surplus) to annualized quarterly adjusted funds from operations ratio [(1)]	**0.2**	(0.6)

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

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

Subsequent to the third quarter of 2021, the Company and its lenders entered into a New Credit Facility. The New Credit Facility includes a $20.0 million demand operating loan facility and a $80.0 million revolving term facility. The New Credit Facility may be extended annually at Kelt's option, subject to lender approval, with a 364 day term-out period if not renewed. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $800.0 million. The Company expects that cash provided by (used in) operating activities and the existing credit facility will provide sufficient liquidity to fund the remainder of its 2021, and its 2022 budgeted capital expenditures.

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

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

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, 2021 there were 189.1 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 2021, 27.8 million common shares traded on the TSX at a weighted average price of $3.59 per common share, compared to a volume weighted average trading price of $1.81 per common share during the year ended December 31, 2020.

As at September 30, 2021, officers, directors, and employees have been granted options to purchase 10.6 million common shares of the Company at an average exercise price of $3.53 per common share. In addition, there are 0.8 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 10 of the interim financial statements.

COMMITMENTS

As of September 30, 2021, the Company is committed to future payments under the following agreements:

	2021	2022	2023	2024	2025	Thereafter
Firm processing commitments	3,826	16,296	17,032	17,407	15,388	59,905
Firm transportation commitments (1)	6,030	24,466	22,892	20,473	17,777	38,377
Total commitments	**9,856**	**40,762**	**39,924**	**37,880**	**33,165**	**98,282**

(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 29, 2021 of CA$/US$1.2741.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended September 30, 2021 and 2020.

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 2021**	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Petroleum and natural gas sales	**75,761**	60,644	59,835	41,961	48,823	45,454	70,918	97,763
Cash provided by (used in) operating activities	**46,547**	34,529	26,582	3,288	(8,610)	14,429	50,172	35,396
Adjusted funds from operations [(1)]	**36,336**	29,452	27,451	10,758	9,002	11,712	27,360	46,655
Per share – basic ($/common share) [(1)]	**0.19**	0.16	0.15	0.06	0.05	0.06	0.15	0.25
Per share – diluted ($/common share) [(1)]	**0.19**	0.15	0.14	0.06	0.05	0.06	0.15	0.25
Net income (loss) and comprehensive income (loss)	**3,752**	54,654	2,854	26,018	(24,080)	(252,661)	(74,085)	(2,628)
Per share – basic ($/common share)	**0.02**	0.29	0.02	0.14	(0.13)	(1.35)	(0.39)	(0.01)
Per share – diluted ($/common share)	**0.02**	0.29	0.02	0.14	(0.13)	(1.35)	(0.39)	(0.01)
Capital expenditures, net of dispositions	**71,162**	45,786	29,446	24,470	(497,321)	27,768	91,126	63,983
Total assets	**872,212**	842,454	775,033	759,987	824,751	1,295,965	1,608,870	1,605,465
Net debt (surplus) [(1)]	**28,174**	(6,696)	(24,303)	(27,655)	(132,263)	373,513	356,393	320,509
Convertible debentures	**-**	-	-	-	89,910	85,181	83,957	82,789
Shareholders' equity	**668,561**	663,284	607,285	603,684	576,862	599,399	850,486	923,062
Average daily production (BOE/d)	**19,621**	19,592	18,860	16,476	22,443	30,366	30,806	31,262
Combined net realized price ($/BOE) [(1)(2)]	**38.33**	31.49	33.07	23.90	19.31	20.67	26.65	32.53
Operating netback ($/BOE) [(1)]	**21.10**	17.68	17.67	8.40	7.02	6.56	11.28	18.65
Operating netback % of combined net realized price [(2)]	**55%**	56%	53%	35%	36%	32%	42%	57%

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

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

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

Crude oil prices reached a bottom in the second quarter of 2020, with unprecedented negative WTI benchmark prices occurring in April 2020. However positive vaccine development and rollout, along with significant production curtailments from OPEC+ and non-OPEC nations, resulted in a significant re-bound in crude oil prices at the end of 2020 and into 2021. Throughout 2021, benchmark global crude oil prices steadily increased due to increasing global demand, OPEC+ production curtailments, and on-going low levels of capital investment in both OPEC+ non-OPEC nations.

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

Benchmark natural gas prices in the US declined in the first half of 2020 with higher than average North American natural gas inventory levels and demand concerns relating to the COVID-19 pandemic. Offsetting the downward pressure in natural gas benchmark prices was a decrease in North American natural gas supply in 2020 due to a reduction of drilling activity in the North American basins. In 2021, benchmark North American natural gas prices increased due to a colder than average start of 2021, record LNG exports in 2021, and slightly below average storage levels heading into the winter months.

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

OUTLOOK AND GUIDANCE

As of the date of this MD&A, management has updated its 2021 guidance from August 5, 2021 to incorporate revised commodity price assumptions and third quarter results.

(CA$ millions, except as otherwise indicated)	**Current 2021 Budget**	**Previous 2021 Guidance (August 5, 2021)**	**% Change to Current 2021 Budget**
Average Production			
Oil and NGLs (bbls/d)	**8,000**	8,000	-
Gas (mmcf/d)	**81.0**	81.0	-
Combined (BOE/d)	**21,500**	21,500	-
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**68.05**	63.50	7
Canadian Light Sweet ($/bbl)	**79.75**	73.51	8
NYMEX natural gas price (US$/MMBTU)	**3.54**	3.25	9
AECO natural gas price (US$/MMBTU)	**2.85**	2.85	-
Average Exchange Rate (US$/CA$)	**0.8017**	0.802	-
Petroleum and natural gas sales	**313.7**	289.7	8
Adjusted funds from operations (1)	**158.0**	145.0	9
Per common share, diluted (1)	**0.83**	0.76	9
Capital Expenditures	**190.0 – 200.0**	175.0	9 – 14
Net debt, at year end (1)	**7.6 – 17.6**	9.0	NA
Weighted average common shares outstanding (millions) (1)	**189.1**	188.6	-

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

Forecasted average production in 2021 remains at 21,500 BOE per day weighted 37% to oil/NGLs and 63% to gas, consistent with the previous guidance.

WTI crude oil prices are forecasted to average US$68.05 per barrel, up 7% from the average forecasted price of US$63.50 per barrel in the Company's previous guidance. Forecasted NYMEX natural gas prices have been revised upwards by 9% to average US$3.54 per mmbtu. After giving effect to the changes in commodity price assumptions, funds from operations for 2021 was revised up by 9% to $158.0 million.

Net capital expenditures at December 31, 2021 is estimated to be $190.0 million to $200.0 million, an increase of $15.0 million to $25.0 million, from $175.0 million in the previous guidance. Net debt at December 31, 2021 is estimated to be $7.6 million to $17.6 million, an increase of $8.6 million to a decrease of $1.4 million from $9.0 million in the previous guidance.

2022 BUDGET

The Company's Board of Directors has approved a capital expenditure budget of $200.0 million to $210.0 million for 2022. Kelt expects to drill 22 gross wells (20.8 net wells), and complete 26 gross wells (24.5 net wells).

Forecasted average production for 2022 is estimated to be approximately 30,000 BOE per day, representing an estimated 40% growth from 2021. Kelt's forecasted 2022 production will be weighted approximately 38% to oil and NGLs and 62% to natural gas.

WTI crude oil prices are forecasted to average US$72.00 per barrel in 2022, and Canadian Light Sweet is forecasted to average $83.13 per barrel in 2022, an increase of 6% and 4% respectively over the forecasted 2021 prices. Natural gas prices are forecast to average US$3.06 per mmbtu for AECO and US$4.10 per mmbtu for NYMEX in 2021, an increase of 7% and 16% respectively over the forecasted 2021 prices.

The Company is forecasting 2022 adjusted funds from operations of $245.0 million ($1.28 per common share, diluted), an increase of 55%, over 2021 guidance. Kelt estimates a net debt surplus of $23.8 million at the end of December 31, 2022.

The table below outlines the Company's forecast assumptions and financial and operating results for 2022 with a comparison to the latest guidance for 2021:

(CA$ millions, except as otherwise indicated)	**2022 Budget**	**2021 Guidance**	**% Change**
Average Production			
Oil and NGLs (bbls/d)	**11,500**	**8,000**	44
Gas (mmcf/d)	**111.0**	**81.0**	37
Combined (BOE/d)	**30,000**	**21,500**	40
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**72.00**	**68.05**	6
Canadian Light Sweet ($/bbl)	**83.13**	**79.75**	4
NYMEX natural gas price (US$/MMBTU)	**4.10**	**3.54**	16
AECO natural gas price (US$/MMBTU)	**3.06**	**2.85**	7
Average Exchange Rate (US$/CA$)	**0.8150**	**0.8017**	2
Capital Expenditures			
Drilling & Completions	**125 – 130**	**120 – 125**	4
Equipment, Facilities & Pipeline Infrastructure	**60 – 65**	**75 – 80**	(19)
Land, Seismic & Asset Acquisitions, net of Property Dispositions	**15**	**(5)**	(400)
Total Capital Expenditures	**200 – 210**	**190 – 200**	5
Petroleum and natural gas sales	**444.7**	**313.7**	42
Adjusted funds from operations (1)	**245.0**	**158.0**	55
Per common share, diluted (1)	**1.28**	**0.83**	54
Net debt (surplus), at year end (1)	**(23.8)**	**7.6 – 17.6**	NA
Weighted average common shares outstanding (millions) (1)	**189.2**	**189.1**	-

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

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 2022 would increase/decrease forecasted adjusted funds from operations by approximately $19.5 million. A 10% increase/decrease in the Company's average gas price forecasted for 2022 would increase/decrease adjusted funds from operations by approximately $14.7 million.

SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are

recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 3 of the December 31, 2020 consolidated annual financial statements.

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

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no changes to the Company's internal controls over financial reporting during the interim period from July 1, 2021 to September 30, 2021 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

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

Non-GAAP financial measures

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

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

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 (used in) operating activities, net income (loss) or other measures of financial performance calculated in accordance with GAAP. The following table reconciles cash provided by (used in) 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)	**2021**	2020	%	**2021**	2020	%
Cash provided by (used in) operating activities	**46,547**	(8,610)	641	**107,658**	55,991	92
Change in non-cash working capital	**(10,412)**	17,191	-161	**(16,961)**	(9,012)	88
Funds from operations	**36,135**	8,581	321	**90,697**	46,979	93
Settlement of decommissioning obligations	**201**	421	-52	**2,542**	1,095	132
Adjusted funds from operations	**36,336**	9,002	304	**93,239**	48,074	94

Throughout this MD&A, reference is made to “P&NG sales”, “P&NG sales before marketing revenue”, “P&NG sales after cost of purchases”, and “net realized prices”. P&NG sales is as reported in the consolidated financial statements in accordance with GAAP, and is before realized gains or losses on financial instruments. P&NG sales before marketing revenue includes P&NG sales (in accordance with GAAP) prior to third party revenue and volumes related to the Company’s oil blending and third-party natural gas purchases and relates sales. P&NG sales after cost of purchases includes P&NG sales (in accordance with GAAP), net of the cost of third-party volumes purchases.

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

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

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

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

Other KPI

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

BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company's operations or financial results. A discussion of business risks, as well as economic and industry factors affecting the Company is included in Kelt's annual MD&A for the year ended December 31, 2020, dated March 11, 2021.

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

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

The Company does not currently expect that there will be an impact to Kelt's 2021 guidance as a result of this Judgment. However any future delays in obtaining permits in the province of British Columbia in 2022, may result in a re-allocation of capital expenditures from the province of British Columbia to Alberta.

On October 7, 2021 the Province of British Columbia announced it was launching a comprehensive review of its royalty system. Any future changes to the British Columbia royalty system may have an impact on the Company's future cash flows.

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

BUSINESS OUTLOOK

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2021 and calendar year 2022. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

Certain information with respect to Kelt contained herein, including management's assessment of future plans and operations, contains forward-looking statements. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, many of which are beyond Kelt's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, imprecision of reserve estimates, environmental risks, competition from other explorers, stock market volatility and ability to access sufficient capital. As a result, Kelt's actual results, performance or achievement could differ materially

from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur.

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

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

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

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

ADDITIONAL INFORMATION

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

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

(CA$ thousands)	[Notes]	**September 30, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**21,976**	31,570
Accounts receivable and accrued sales	[11]	**23,724**	20,954
Prepaid expenses and deposits		**1,661**	11,696
Derivative financial instruments	[11]	**-**	2,673
Total current assets		**47,361**	66,893
Deferred income tax asset		**12,376**	31,879
Exploration and evaluation assets	[6]	**54,014**	53,449
Property, plant and equipment	[7]	**758,461**	607,766
Total assets		**872,212**	759,987
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**75,535**	36,565
Derivative financial instruments	[11]	**12,779**	1,214
Decommissioning obligations	[9]	**1,813**	2,169
Lease liability		**572**	684
Total current liabilities		**90,699**	40,632
Decommissioning obligations	[9]	**112,488**	114,891
Lease liability		**464**	780
Total liabilities		**203,651**	156,303
SHAREHOLDERS' EQUITY			
Shareholders' capital	[10]	**1,144,352**	1,141,517
Contributed surplus and reserve		**(18,271)**	(19,053)
Deficit		**(457,520)**	(518,780)
Total shareholders' equity		**668,561**	603,684
Total liabilities and shareholders' equity		**872,212**	759,987
Commitments	[14]		

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 NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
[UNAUDITED]

(CA$ thousands, except per share amounts)	[Notes]	Three months ended September 30 **2021**	Three months ended September 30 2020	Nine months ended September 30 **2021**	Nine months ended September 30 2020
Revenue					
Petroleum and natural gas sales	[12]	**75,761**	48,823	**196,240**	165,195
Royalties		**(7,937)**	(1,947)	**(17,513)**	(7,130)
		67,824	46,876	**178,727**	158,065
Expenses					
Production		**16,682**	15,987	**46,367**	72,987
Transportation		**6,483**	7,453	**17,983**	27,348
Cost of purchases		**1,088**	1,749	**4,583**	6,365
Financing	[13]	**565**	4,900	**1,586**	17,611
General and administrative		**1,939**	1,845	**6,365**	5,470
Share based compensation	[10]	**1,177**	1,315	**3,209**	4,398
Exploration and evaluation	[6]	**218**	2,020	**219**	2,963
Depletion and depreciation	[7]	**22,563**	19,106	**64,315**	94,591
Impairment (impairment reversal)	[7]	**-**	-	**(70,130)**	336,500
		50,715	54,375	**74,497**	568,233
Gain (loss) on derivative instruments	[11]	**(12,186)**	(2,462)	**(24,438)**	13,561
Foreign exchange gain (loss)		**98**	(73)	**(70)**	112
Gain (loss) on sale of assets	[5]	**660**	(5,279)	**807**	(3,576)
Unrealized loss on investment		**-**	(5,600)	**-**	(5,600)
Unrealized loss on redemption of convertible debentures		**-**	(3,481)	**-**	(3,481)
Other income		**125**	314	**235**	953
Other expenses		**-**	-	**-**	(401)
Premium on flow-through shares		**-**	-	**-**	1,346
Net income (loss) before taxes		**5,806**	(24,080)	**80,764**	(407,254)
Deferred income tax recovery (expense)		**(2,054)**	-	**(19,504)**	56,428
Net income (loss) and comprehensive income (loss)		**3,752**	(24,080)	**61,260**	(350,826)
Net income (loss) per common share					
Basic		**0.02**	(0.13)	**0.32**	(1.87)
Diluted		**0.02**	(0.13)	**0.32**	(1.87)

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

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

		Shareholders' capital					
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2020		188,580	1,141,517	(57,668)	38,615	(518,780)	603,684
Net income and comprehensive income		-	-	-	-	61,260	61,260
Exercise of stock options	[10]	225	559	-	(151)	-	408
Vesting of restricted share units	[10]	283	2,276	-	(2,276)	-	-
Share based compensation	[10]	-	-	-	3,209	-	3,209
Balance at September 30, 2021		**189,088**	**1,144,352**	**(57,668)**	**39,397**	**(457,520)**	**668,561**
Balance at December 31, 2019		187,786	1,137,121	(57,668)	37,582	(193,973)	923,062
Loss and comprehensive loss		-	-	-	-	(350,826)	(350,826)
Exercise of stock options	[10]	231	331	-	(103)	-	228
Vesting of restricted share units	[10]	488	3,780	-	(3,780)	-	-
Share based compensation	[10]	-	-	-	4,398	-	4,398
Balance at September 30, 2020		**188,505**	**1,141,232**	**(57,668)**	**38,097**	**(544,799)**	**576,862**

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

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

		Three months ended September 30		Nine months ended September 30	
(CA$ thousands)	[Notes]	**2021**	2020	**2021**	2020
Operating activities					
Net income (loss) and comprehensive income (loss)		**3,752**	(24,080)	**61,260**	(350,826)
Items not affecting cash:					
Accretion		**534**	1,599	**1,442**	5,208
Share based compensation		**1,177**	1,315	**3,209**	4,398
Exploration and evaluation		**218**	2,020	**219**	2,963
Depletion and depreciation		**22,563**	19,106	**64,315**	94,591
Impairment expense (reversal)		**-**	-	**(70,130)**	336,500
Unrealized (gain) loss on derivative financial instruments	[11]	**6,698**	(3,886)	**14,237**	158
(Gain) loss on sale of assets	[5]	**(660)**	5,279	**(807)**	3,576
Deferred income tax expense (recovery)		**2,054**	-	**19,504**	(56,428)
Unrealized loss on investment in securities		**-**	5,600	**-**	5,600
Unrealized loss on redemption of convertible debentures		**-**	3,481	**-**	3,481
Premium on flow-through shares		**-**	-	**-**	(1,346)
Other		**-**	(202)	**(10)**	199
Cash premiums on derivatives		**-**	(1,230)	**-**	-
Settlement of decommissioning obligations	[9]	**(201)**	(421)	**(2,542)**	(1,095)
Change in non-cash operating working capital	[15]	**10,412**	(17,191)	**16,961**	9,012
Cash provided by (used in) operating activities		**46,547**	(8,610)	**107,658**	55,991
Financing activities					
Decrease in bank debt		**-**	(320,300)	**-**	(300,000)
Increase (decrease) in financing liability		**-**	(243)	**-**	28,024
Proceeds on exercise of stock options	[10]	**348**	228	**408**	228
Repayment of lease liability principal		**(191)**	(264)	**(551)**	(886)
Cash provided by (used in) financing activities		**157**	(320,579)	**(143)**	(272,634)
Investing activities					
Exploration and evaluation assets	[6]	**(641)**	(434)	**(3,563)**	(2,692)
Property, plant and equipment	[7]	**(79,410)**	(6,413)	**(151,719)**	(125,152)
Property acquisitions		**-**	-	**(16)**	(15)
Property dispositions		**8,889**	504,168	**8,905**	506,286
Change in non-cash investing working capital	[15]	**13,899**	(32,750)	**29,274**	(34,613)
Cash used in investing activities		**(57,263)**	464,571	**(117,119)**	343,814
Impact of foreign currency on cash balances		**-**	-	**10**	-
Net change in cash and cash equivalents		**(10,559)**	135,382	**(9,594)**	127,171
Cash and cash equivalents, beginning of period		**32,535**	154	**31,570**	8,365
Cash and cash equivalents, end of period		**21,976**	135,536	**21,976**	135,536

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

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

1. DESCRIPTION OF THE BUSINESS

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

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

2. Significant Judgements and Estimates

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

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

These estimates require assumptions for future commodity prices, exchange rates, interest rates, future oil and natural gas production, and other economic issues that have a high degree of uncertainty.

The Company will continue to update its significant judgments, estimates and assumptions on the longer-term impacts of COVID-19 and the emergence of new COVID-19 variants as the impacts, if any, on commodity prices and equity markets becomes available.

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on November 9, 2021 for issue on November 10, 2021.

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2020.

b) Basis of measurement

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 4 of the December 31, 2020 consolidated annual financial statements. These condensed consolidated interim financial statements as at September 30, 2021 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2020.

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

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

The following table summarizes the fair value of net assets acquired pursuant to property acquisitions during the nine months ended September 30, 2021 and the year ended December 31, 2020.

Acquisitions	**September 30, 2021**	December 31, 2020
Exploration and evaluation assets	**222**	2,113
Property, plant and equipment	**59**	1,245
Decommissioning obligations	**(65)**	(1,015)
Total assets (liabilities) acquired	**216**	2,343
Consideration		
Cash consideration	**(16)**	(15)
Non-cash consideration	**(200)**	(2,328)
Total consideration	**(216)**	(2,343)

Dispositions	**September 30, 2021**	December 31, 2020
Exploration and evaluation assets	**(1,426)**	(20,321)
Property, plant and equipment	**(10,808)**	(565,651)
Decommissioning obligations	**3,936**	42,917
Financing and other liabilities	**-**	29,915
Carrying value of net (assets) liabilities disposed	**(8,298)**	(513,140)
Consideration		
Cash consideration, after closing adjustments	**8,905**	496,061
Deposit held in trust	**-**	10,000
Non-cash consideration	**200**	2,328
Total consideration	**9,105**	508,389
Gain (loss) on sale of assets	**807**	(4,751)

In the third quarter of 2021, the Company disposed of non-core assets in the Spirit River area for net proceeds of $8.9 million after closing adjustments. The Spirit River assets had a net carrying value of $8.7 million (property plant and equipment costs of $21.7 million, accumulated depletion and depreciation of $10.9 million, exploration and evaluation costs of $1.4 million and abandonment obligations of $3.5 million), resulting in a gain on sale of $0.2 million.

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

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback of $15.0 million held in trust. The holdback was released to Kelt, in three equal amounts over 12 months, with the final payment being received in August 2021.

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, 2021	December 31, 2020
Balance, beginning of period	**53,449**	73,891
Additions	**3,563**	2,853
Property acquisitions	**222**	2,113
Property dispositions	**(1,426)**	(20,321)
Transfers to property, plant and equipment	**(1,575)**	(1,868)
Expired mineral leases	**(219)**	(3,219)
Balance, end of period	**54,014**	53,449

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**September 30, 2021**	December 31, 2020
Development and production ("D&P") assets	**756,538**	606,332
Right-of-use ("ROU") assets	**985**	1,243
Corporate assets	**938**	191
Total net carrying value of property, plant and equipment	**758,461**	607,766

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2019	2,255,430	4,800	3,501	2,263,731
Additions	148,798	438	884	150,120
Property acquisitions [note 5]	1,245	-	-	1,245
Property dispositions [note 5]	(1,154,435)	-	(1,882)	(1,156,317)
Decommissioning costs	(1,008)	-	-	(1,008)
Transfers from E&E	1,868	-	-	1,868
Balance at December 31, 2020	**1,251,898**	**5,238**	**2,503**	**1,259,639**
Additions	**150,705**	**1,014**	**123**	**151,842**
Property acquisitions [note 5]	**59**	**-**	**-**	**59**
Property dispositions [note 5]	**(21,692)**	**-**	**-**	**(21,692)**
Decommissioning costs	**2,212**	**-**	**-**	**2,212**
Transfers from E&E	**1,575**	**-**	**-**	**1,575**
Balance at September 30, 2021	**1,384,757**	**6,252**	**2,626**	**1,393,635**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2019	787,853	4,304	1,163	793,320
Depletion and depreciation expense	110,904	743	976	112,623
Impairment	336,500	-	-	336,500
Dispositions [note 5]	(589,691)	-	(879)	(590,570)
Balance at December 31, 2020	**645,566**	**5,047**	**1,260**	**651,873**
Depletion and depreciation expense	**63,667**	**267**	**381**	**64,315**
Impairment reversal	**(70,130)**	**-**	**-**	**(70,130)**
Dispositions [note 5]	**(10,884)**	**-**	**-**	**(10,884)**
Balance at September 30, 2021	**628,219**	**5,314**	**1,641**	**635,174**

Future capital costs required to develop proved reserves in the amount of $527.9 million (December 31, 2020 – $536.7 million) are included in the depletion calculation for development and production assets.

As at September 30, 2021, the Company concluded that there were no indicators of impairment therefore an impairment test was not conducted.

In the first quarter of 2020, as a result of the COVID-19 pandemic and a resulting collapse in global crude oil prices, 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).

On August 21, 2020, the Company completed the disposition of the Inga Assets, which comprised the majority of the Company's BC CGU assets. As a result of the disposition, the BC CGU was impaired by $259.4 million (before-tax) in the second quarter of 2020, based on the transaction value contained in the Inga Asset Disposition purchase and sale agreement.

In the second quarter of 2021, as a result of increased forward commodity price forecasts and an increase in the Company's market capitalization since December 31, 2020, an impairment reversal test was performed on the Alberta CGU. Based on the impairment reversal test performed, it was determined that the recoverable amount of the Alberta CGU was in excess of its carrying value resulting in an impairment reversal of $70.1 million (before-tax). As at June 30, 2021, the net carrying amount of PP&E for the Alberta CGU was $639.8 million subsequent to the impairment reversal being taken.

Recoverable amounts for the Alberta CGU in the second quarter of 2021 was estimated based on the fair value less cost of disposal ("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, 2020, with the information rolled-forward to June 30, 2021. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at June 30, 2021, 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, 2020 evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. The increase in commodity prices from December 31, 2020 resulted in the addition of wells which were previously uneconomic in the December 31, 2020 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 June 30, 2021 was 16.0% and was based on the risks specific to the assets in the Alberta CGU.

The recoverable amounts estimated pursuant to FVLCD calculations are sensitive to the discount rate and future commodity price assumptions. As at June 30, 2021, holding all other variables in the FVLCD calculation for the Alberta CGU constant:

- if the discount rate increased (decreased) by 1%, the recoverable amount of the Alberta CGU would

decrease by $34.1 million and increase by $37.1 million; and

- if the forecast combined average realized price decreased (increased) by 5%, the recoverable amount of the Alberta CGU would decrease (increase) by $88.5 million.

Forecast future prices used in the impairment evaluations as at June 30, 2021 reflect the benchmark prices set-forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

As at June 30, 2021	2021	2022	2023	2024	2025[(1)]
WTI Cushing Oklahoma (US$/bbl)	**71.00**	**69.00**	**67.00**	**65.00**	**66.30**
Canadian Light Sweet 40 API ($/bbl)	**83.75**	**81.10**	**78.45**	**75.84**	**77.36**
NYMEX Henry Hub (US$/MMBtu)	**3.40**	**3.25**	**3.00**	**3.00**	**3.06**
AECO-C Spot ($/MMBtu)	**3.63**	**3.29**	**2.82**	**2.67**	**2.72**

(1) Prices escalate at 2% in years 2026 to 2031

8. BANK DEBT

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

There are no borrowings under the Credit Facility at September 30, 2021 other than outstanding letters of credit of $1.2 million. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount. The credit facility is subject to semi-annual redeterminations. There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $100.0 million.

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

Subsequent to the third quarter of 2021, the Company and its lenders entered into a new credit facility (“New Credit Facility”). The New Credit Facility includes a $20.0 million demand operating loan facility and a $80.0 million revolving term facility. The New Credit Facility may be extended annually at Kelt’s option, subject to lender approval, with a 364 day term-out period if not renewed. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $800.0 million.

9. DECOMMISSIONING OBLIGATIONS

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

	September 30, 2021	December 31, 2020
Balance, beginning of period	**117,060**	160,023
Obligations incurred	**1,769**	1,265
Obligations acquired	**65**	1,015
Obligations disposed	**(3,936)**	(42,917)
Obligations settled	**(2,542)**	(1,945)
Changes in discount rate	**(25,721)**	35,862
Changes in inflation rate	**25,936**	(36,101)
Revisions to estimates	**228**	(2,034)
Accretion expense	**1,442**	1,892
Balance, end of period	**114,301**	117,060
Decommissioning obligations – current	**1,813**	2,169
Decommissioning obligations – non-current	**112,488**	114,891
Key assumptions		
Risk free rate	**1.98%**	1.21%
Inflation rate	**1.98%**	1.21%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2021 the undiscounted amount of the estimated cash flows required to settle the obligation is $114.3 million (December 31, 2020 – $117.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.98%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $225.9 million at September 30, 2021 (December 31, 2020 – $174.8 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

10. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of September 30, 2021 (December 31, 2020 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2019	187,786	1,137,121
Issued for cash on exercise of stock options	277	274
Transfer from contributed surplus on exercise of stock options	-	123
Released upon vesting of restricted share units	517	3,997
Share issue costs, net of deferred taxes	-	2
Balance at December 31, 2020	**188,580**	**1,141,517**
Issued for cash on exercise of stock options	**225**	**408**
Transfer from contributed surplus on exercise of stock options	**-**	**151**
Released upon vesting of restricted share units	**283**	**2,276**
Balance at September 30, 2021	**189,088**	**1,144,352**

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2019	10,015	4.76
Granted	2,725	1.03
Exercised (1)	(277)	0.99
Forfeited	(1,267)	4.44
Expired	(1,229)	4.77
Balance at December 31, 2020	**9,967**	**3.88**
Granted	**2,613**	**2.77**
Exercised (1)	**(225)**	**1.81**
Forfeited	**(102)**	**4.65**
Expired	**(1,607)**	**4.67**
Balance at September 30, 2021	**10,646**	**3.53**

(1) The weighted average share price on the date stock options were exercised during the period ended September 30, 2021 was $3.59 per common share ($1.64 per common share on average during the year ended December 31, 2020).

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

	Nine months ended September 30	
	2021	2020
Risk free interest rate	**0.60%**	0.52%
Expected life (years)	**3.6**	3.5
Expected volatility (1)	**79.5%**	67.7%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**5.2%**	4.4%
Fair value of options granted during the year ($/share)	**1.49**	0.48

(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, 2021:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	6,416	3.7	2.14	1,767	2.08
$3.51 to $6.50	3,640	1.7	5.32	2,901	5.49
$6.51 to $9.50	590	1.3	7.62	590	7.62
Total	**10,646**	**2.9**	**3.53**	**5,258**	**4.58**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2019	865
Granted	10
Released upon vesting	(517)
Forfeited	(12)
Balance at December 31, 2020	**346**
Granted	**703**
Released upon vesting	**(283)**
Balance at September 30, 2021	**766**

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	
	2021	2020	**2021**	2020
Stock options	**854**	593	**2,261**	2,420
Restricted share units	**323**	722	**948**	1,978
Total share based compensation expense	**1,177**	1,315	**3,209**	4,398

Per share amounts

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

	Three months ended September 30		Nine months ended September 30	
(000s of common shares)	**2021**	2020	**2021**	2020
Weighted average common shares outstanding, basic	**188,842**	188,126	**188,688**	187,939
Effect of stock options and RSUs	**2,250**	614	**1,611**	738
Weighted average common shares outstanding, diluted	**191,092**	188,740	**190,299**	188,677

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted net income or loss per common share. For the quarter ended September 30, 2021, the stock options and RSUs impact in calculating the diluted net income was negligible.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include cash and cash equivalents, investment in securities, accounts receivable and accrued sales, deposits, accounts payable and accrued liabilities, derivative financial instruments, convertible debentures, financing liabilities and bank debt (when an outstanding balance is drawn on the Credit Facility). The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. Net income (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 (used in) 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, 2021, the following commodity price risk management contracts are outstanding:

Contract Type[(1)(2)(3)]	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
AECO 5A fixed price swap	5,000 GJ/d	CAD$2.70/GJ	Oct 2021
NYMEX fixed price swap	25,000 MMBtu/d	CAD$3.80/MMBtu	Oct 2021
NYMEX fixed price swap	15,000 MMBtu/d	CAD$5.37/MMBtu	Nov 2021 – Mar 2022
NYMEX fixed price swap	10,000 MMBtu/d	CAD$4.90/MMBtu	Apr – Oct 2022
NYMEX costless collar	10,000 MMBtu/d	Ceiling CAD$4.68/MMBtu Floor CAD$3.60/MMBtu	Nov 2021 – Mar 2022

Contract Type[1][2][3]	Notional Volume	Contract Price	Remaining Term
Crude oil derivative contracts			
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.75/bbl	Oct 2021 – Dec 2022

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

Foreign exchange risk

Kelt is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given realized pricing is directly influenced by U.S. dollar denominated benchmark pricing and from exposure from certain U.S. dollar denominated natural gas marketing arrangements. As at September 30, 2021, there are no foreign exchange risk management contracts outstanding.

Gains and losses on risk management contracts

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

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Realized gain (loss)	**(5,488)**	(6,348)	**(10,201)**	13,719
Unrealized loss	**(6,698)**	3,886	**(14,237)**	(158)
Gain (loss) on derivative financial instruments	**(12,186)**	(2,462)	**(24,438)**	13,561

Fair value measurements

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

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

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

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

Credit Risk

As at September 30, 2021, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

Accounts receivable and accrued sales	**September 30, 2021**	December 31, 2020
Joint venture partners	**1,647**	3,510
Oil and gas marketers	**20,603**	16,650
GST input tax credits	**2,039**	1,011
Interest receivable	**-**	104
Risk management contracts	**-**	86
Other	**38**	346
Expected credit loss provision	**(603)**	(753)
Accounts receivable and accrued sales	**23,724**	20,954

During the quarter ended September 30, 2021, sales to four oil and gas marketers accounted for approximately 90% of total sales. During the period ended December 31, 2020, sales to four oil and gas marketers accounted for approximately 82% of total sales. Kelt has mitigated some of its credit risk through parental guarantees (with terms up to five years) and through the majority of its sales to oil and gas marketers which have been rated investment-grade by an independent ratings agency.

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

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from the Company's joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. As of September 30, 2021, the collection risk on outstanding accounts receivable balances is considered low as only 2.0% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2020 – 5.0%).

Liquidity Risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities as at September 30, 2021 include accounts payable, derivative financial instruments and lease liabilities. The Company manages liquidity risk with its budgeting process which sets out expected debt levels, capital expenditures and funds flow from operations. In addition, risk management contracts such as derivative financial instruments may be used to protect future sales. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements and expected sales.

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

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at September 30, 2021:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	75,535	-	-	**75,535**
Derivative financial instruments	12,779	-	-	**12,779**
Lease liability	572	464	-	**1,036**
Total	**88,886**	**464**	**-**	**89,350**

Capital Management

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

future capital expenditures relating to exploration, development and acquisition activities.

As at September 30, 2021, Kelt had a working capital deficit of $43.3 million, no long-term bank debt and a $20.0 million demand credit facility for the purpose of short-term working capital management, hedging and letters of credit.

Subsequent to the third quarter of 2021, the Company and its lenders entered into a New Credit Facility, resulting in an increase to the Company's overall borrowing base to $100.0 million. Based on the Company's current expectations of commodity prices, and its New Credit Facility, the Company believes it has sufficient liquidity to fund the remainder of its 2021 capital program and its 2022 capital program.

	September 30, 2021	December 31, 2020
Bank debt	**-**	-
Accounts payable and accrued liabilities	**75,535**	36,565
Cash and cash equivalents	**(21,976)**	(31,570)
Accounts receivable and accrued sales	**(23,724)**	(20,954)
Prepaid expenses and deposits	**(1,661)**	(11,696)
Net debt (surplus) (1)	**28,174**	(27,655)
Annualized quarterly adjusted funds from operations (2)(3)	**145,344**	43,032
Net debt (surplus) to annualized quarterly adjusted funds from operations ratio (2)	**0.2**	(0.6)

(1) "Net debt" is a non-GAAP measure and is used by Kelt as a key measure to assess the Company's liquidity.

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

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

The Company monitors its capital structure and short-term financing requirements using a net debt to annualized quarterly adjusted funds from operations ratio, which is a non-GAAP financial measure. Kelt targets a net 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, 2021, the Company is in compliance with all covenants as no bank debt has been drawn against its Credit Facility. The Company is not subject to any other externally imposed capital requirements.

12. PETROLEUM AND NATURAL GAS SALES

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the nine months ended September 30, 2021, transportation costs incurred in relation to these contracts was $7.3 million (September 30, 2020 – $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	
	2021	2020	**2021**	2020
Oil production	**33,798**	25,000	**82,887**	85,949
Oil treating and other	**110**	291	**422**	606
NGLs production	**11,732**	6,441	**31,100**	17,289
Gas production	**28,750**	15,591	**76,297**	55,313
Gas processing and other	**216**	208	**742**	851
Marketing revenue	**1,155**	1,292	**4,792**	5,187
Total petroleum and natural gas sales	**75,761**	48,823	**196,240**	165,195

Included in accounts receivable at September 30, 2021 is $20.6 million (December 31, 2020 – $16.7 million) of accrued oil and gas sales related to September 2021 production.

13. FINANCING EXPENSES

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Total interest expense	**31**	3,301	**144**	12,403
Accretion of convertible debentures	**-**	1,248	**-**	3,640
Accretion of decommissioning obligations	**534**	351	**1,442**	1,568
Total financing expense	**565**	4,900	**1,586**	17,611

14. COMMITMENTS

As of September 30, 2021, the Company is committed to future payments under the following agreements:

	2021	2022	2023	2024	2025	Thereafter
Firm processing commitments	3,826	16,296	17,032	17,407	15,388	59,905
Firm transportation commitments [(1)]	6,030	24,466	22,892	20,473	17,777	38,377
Total annual commitments	**9,856**	**40,762**	**39,924**	**37,880**	**33,165**	**98,282**

(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 29, 2021 of CA$/US$1.2741.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
Changes in non-cash working capital	**2021**	2020	**2021**	2020
Accounts receivable and accrued sales	**(741)**	17,204	**(2,770)**	28,648
Prepaid expenses and deposits	**5,470**	(15,028)	**10,035**	(14,368)
Accounts payable and accrued liabilities	**19,582**	(52,270)	**38,970**	(39,881)
Change in non-cash working capital	**24,311**	(50,094)	**46,235**	(25,601)
Relating to:				
Operating activities	**10,412**	(17,191)	**16,961**	9,012
Investing activities	**13,899**	(32,750)	**29,274**	(34,613)
Items not impacting cash	**-**	(153)	**-**	-
Change in non-cash working capital	**24,311**	(50,094)	**46,235**	(25,601)

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	**2021**	2020	**2021**	2020
Interest and standby fees on bank debt	**27**	1,703	**84**	7,248
Interest on convertible debentures (1)	**-**	-	**-**	2,242
Taxes (2)	**-**	-	**-**	-

(1) Interest on the Debentures was paid semi-annually on May 31st and early on October 3rd, 2020 upon redemption of the convertible debentures.

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

ABBREVIATIONS

bbls	barrels
mbbls	thousand barrels
bbls/d	barrels per day
BOE	barrels of oil equivalent
mBOE	thousand barrels of oil equivalent
BOE/d	barrels of oil equivalent per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mmcf/d	million cubic feet per day
MMBtu	million British Thermal Units
GJ	gigajoules
AECO	Alberta Energy Company "C" Meter Station of the NOVA Pipeline System
NIT	NOVA Inventory Transfer ("AB-NIT"), being the reference price at the AECO Hub
WTI	West Texas Intermediate
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

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

William C. Guinan [1, 5]
Independent

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

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

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

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

1 board chair

2 member, audit committee

3 member, reserves committee

4 member, compensation committee

5 member, health, safety and environment committee

6 member, nominating committee

7 lead director

HEAD OFFICE

Suite 300, East Tower, 311 Sixth Avenue S.W.
Calgary, Alberta T2P 3H2

Phone: 403.294.0154
Fax: 403.291.0155
www.keltexploration.com

REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company
350-300 5th Avenue S.W.
Calgary, Alberta T2P 3C4

LEGAL COUNSEL

Borden Ladner Gervais LLP
Centennial Place, East Tower,
Suite 1900, 520 Fourth Avenue S.W.
Calgary, Alberta T2P 0R3

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

AUDITORS

PricewaterhouseCoopers LLP
Suite 3100, 111 Fifth Avenue S.W.
Calgary, Alberta T2P 5L3

EVALUATION ENGINEERS

Sproule Associates Limited
Suite 900, 140 Fourth Avenue S.W.
Calgary, Alberta T2P 3N3

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common shares “KEL”

SUITE 300, EAST TOWER
311 SIXTH AVENUE SOUTH WEST
CALGARY, ALBERTA T2P 3H2