# THIRD QUARTER REPORT

# AS AT AND FOR THE THREE AND NINE MONTHS ENDED

# SEPTEMBER 30, 2022

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| FINANCIAL AND OPERATIONAL HIGHLIGHTS | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| **FINANCIAL** | | | | | | |
| Petroleum and natural gas sales | **143,254** | 75,761 | 89 | **460,638** | 196,240 | 135 |
| Cash provided by operating activities | **85,104** | 46,547 | 83 | **242,280** | 107,658 | 125 |
| Adjusted funds from operations [(1)] | **65,189** | 36,336 | 79 | **234,141** | 93,239 | 151 |
| Basic ($/ common share) | **0.34** | 0.19 | 79 | **1.23** | 0.49 | 151 |
| Diluted ($/ common share) | **0.33** | 0.19 | 74 | **1.20** | 0.49 | 145 |
| Net income and comprehensive income | **23,089** | 3,752 | 515 | **104,520** | 61,260 | 71 |
| Basic ($/ common share) | **0.12** | 0.02 | 500 | **0.55** | 0.32 | 72 |
| Diluted ($/ common share) | **0.12** | 0.02 | 500 | **0.54** | 0.32 | 69 |
| Capital expenditures, net of A&D [(1)] | **76,181** | 71,162 | 7 | **248,946** | 146,393 | 70 |
| Total assets | **1,078,619** | 872,212 | 24 | **1,078,619** | 872,212 | 24 |
| Net debt (surplus) [(1)] | **33,537** | 28,174 | 19 | **33,537** | 28,174 | 19 |
| Shareholders' equity | **845,103** | 668,561 | 26 | **845,103** | 668,561 | 26 |
| Weighted average shares outstanding (000s) | | | | | | |
| Basic | **191,812** | 188,842 | 2 | **190,799** | 188,688 | 1 |
| Diluted | **196,118** | 191,092 | 3 | **195,159** | 190,299 | 3 |
| **OPERATIONS** | | | | | | |
| Average daily production | | | | | | |
| Oil (bbls/d) [(2)] | **5,192** | 4,485 | 16 | **5,378** | 4,041 | 33 |
| NGLs (bbls/d) | **3,906** | 3,004 | 30 | **4,242** | 3,120 | 36 |
| Gas (Mcf/d) | **100,158** | 72,789 | 38 | **104,078** | 73,195 | 42 |
| Combined (BOE/d) | **25,791** | 19,621 | 31 | **26,966** | 19,360 | 39 |
| Production per million common shares (BOE/d) | **134** | 104 | 29 | **141** | 103 | 37 |
| Net realized prices, before financial instruments [(1)] | | | | | | |
| Oil ($/bbl) [(2)] | **115.92** | 82.35 | 41 | **120.92** | 75.71 | 60 |
| NGLs ($/bbl) | **63.59** | 42.45 | 50 | **69.60** | 36.51 | 91 |
| Gas ($/Mcf) | **6.38** | 4.32 | 48 | **6.68** | 3.68 | 73 |
| Operating netbacks ($/BOE) [(1)] | | | | | | |
| Petroleum and natural gas sales | **60.38** | 41.97 | 44 | **62.57** | 37.13 | 69 |
| Cost of purchases | **(2.64)** | (0.60) | 340 | **(1.76)** | (0.87) | 102 |
| Combined net realized price, before financial instruments [(1)] | **57.74** | 41.37 | 40 | **60.81** | 36.26 | 68 |
| Realized loss on financial instruments | **(8.77)** | (3.04) | 188 | **(8.26)** | (1.93) | 328 |
| Combined net realized price, after financial instruments [(1)] | **48.97** | 38.33 | 28 | **52.55** | 34.33 | 53 |
| Royalties | **(7.04)** | (4.40) | 60 | **(6.75)** | (3.31) | 104 |
| Production expense | **(10.52)** | (9.24) | 14 | **(9.98)** | (8.77) | 14 |
| Transportation expense | **(3.22)** | (3.59) | -10 | **(3.08)** | (3.40) | -9 |
| Operating netback [(1)] | **28.19** | 21.10 | 34 | **32.74** | 18.85 | 74 |
| Land holdings | | | | | | |
| Gross acres | **788,999** | 778,125 | 1 | **788,999** | 778,125 | 1 |
| Net acres | **572,937** | 563,687 | 2 | **572,937** | 563,687 | 2 |

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

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

## MESSAGE TO SHAREHOLDERS

Kelt's average production for the three months ended September 30, 2022, was 25,791 BOE per day, up 31% from average production of 19,621 BOE per day during the corresponding period in 2021 and down 7% from average production of 27,713 BOE per day during the second quarter of 2022. Quarter-over-quarter production was down mainly due to downtime experienced at the TWM Pipestone Gas Plant where Kelt processes approximately 33.0 MMcf per day of raw gas and which was shut-in for approximately six weeks beginning on September 2, 2022, for its periodic (every 3-5 years) plant turnaround maintenance. In addition, during the third quarter of 2022, Kelt shut-in gas production intermittently when AECO and Station 2 prices were weak due to pipeline maintenance on the NGTL and T-South systems. This allowed Kelt to realize an average price of $6.38 per Mcf during the third quarter of 2022. Production for the three months ended September 30, 2022, was weighted 35% oil and NGLs and 65% gas.

Kelt's realized average oil price during the third quarter of 2022 was $115.92 per barrel, up 41% from $82.35 per barrel in the third quarter of 2021. The realized average NGLs price during the third quarter of 2022 was $63.59 per barrel, up 50% from $42.45 per barrel in the same quarter of 2021. Kelt's realized average gas price for the third quarter of 2022 was $6.38 per Mcf, up 48% from $4.32 per Mcf in the corresponding quarter of the previous year.

For the three months ended September 30, 2022, petroleum and natural gas sales were $143.3 million and adjusted funds from operations was $65.2 million ($0.33 per share, diluted), compared to $75.8 million and $36.3 million ($0.19 per share, diluted) respectively, in the third quarter of 2021. On September 30, 2022, net debt was $33.5 million or 0.1 times annualized third quarter adjusted funds from operations.

Net capital expenditures incurred during the three months ended September 30, 2022, were $76.2 million. During the third quarter of 2022, the Company spent $52.8 million on drill and complete operations and $21.9 million on facilities, pipelines, and equipment.

In its Oak/Flatrock Division, Kelt drilled an Upper Montney well from an existing pad site during the quarter and commenced drilling a second well off the same pad site. A third well was drilled during October on the southern part of its land block.

At its Pouce Coupe/Progress/Spirit River Division, Kelt was very active in its Charlie Lake play where the Company drilled a six well development program at Spirit River. These wells are expected to be completed and tied-in by the end of the year.

In the Wembley/Pipestone Division, Kelt completed its first Charlie Lake well (60% working interest) and expects to follow-up with additional drilling on adjacent lands in the Charlie Lake formation in 2023. During the first two weeks on-stream, based on operating hours, the well (gross at 100%) produced approximately 828 barrels of oil per day and approximately 2.0 MMcf per day of associated raw gas.

After an active Montney drilling program and pipeline construction at Wembley/ Pipestone, Kelt is currently either restricting production from certain wells or has shut-in production from certain wells in the area due to third-party gas processing congestion. These limitations are expected to be alleviated with cooler weather and resulting improvements in plant efficiencies. In addition, Kelt's access to incremental gas processing capacity is expected to increase as the Company has entered into definitive gas processing arrangements with certain midstream companies that are currently either building a new gas processing plant or expanding an existing gas processing plant in the area.

Kelt has entered into an agreement to process 25.0 MMcf per day of raw gas at a third party operated Pipestone area facility that is expected to be onstream by the end of 2023. In addition, the Company has entered into an agreement to be a major tenant at the proposed 150.0 MMcf per day CSV Midstream Solutions Albright Sour Gas Processing Facility ("Albright") that is expected to be constructed by the end of 2024. Kelt will have access to 50.0 MMcf per day of raw gas processing upon start-up of Albright and an incremental 20.0 MMcf per day of raw gas processing capacity after five years from start-up. The design for this plant includes sulphur recovery capability which Kelt expects will enhance its oil and gas revenue stream through incremental sales of sulphur.

Kelt expects to spend $300.0 million in its capital expenditure program for 2022. Production is forecasted to average between 27,500 and 28,500 BOE per day, an increase of between 31% and 36% from average production of 20,987 BOE per day in 2021. Production guidance for 2022 has been reduced from previous guidance of 28,500 to 29,500

BOE per day to account for the shut-in production described earlier in this news release. Adjusted funds from operations for 2022 is forecasted to be $325.0 million or 8% greater than the Company's planned 2022 capital expenditure program. Kelt will continue to maintain its strong financial position. On December 31, 2022, the Company expects to have a net surplus of $5.0 million.

**2023 Budget**

The Company's Board of Directors has approved an initial capital expenditure budget of $310.0 million for 2023. Kelt expects to drill 35 gross (34.0 net) wells in 2023 and expects to complete 36 gross (35.0 net) wells in 2023. The 2023 capital expenditures are expected to be allocated as follows: $220.0 million for drilling and completing wells, $70.0 million for facilities, pipeline, and equipment and $20.0 million for land and seismic.

The Company has taken a conservative approach to estimating 2023 commodity prices and is basing its 2023 financial forecasts on commodity prices that are lower than current futures strip prices. Preparation of the 2023 budget includes the following forecasted average commodity price assumptions (with estimated average forecasted 2022 commodity prices shown for comparative purposes):

| **Commodity Index** | **2023 Budget** | 2022 Forecast | Change |
|---|---|---|---|
| WTI Crude Oil (USD/bbl) | **78.00** | 94.50 | (17%) |
| MSW Crude Oil (CAD/bbl) | **99.90** | 120.00 | (17%) |
| NYMEX Henry Hub L3D Natural Gas (USD/MMBtu) | **5.00** | 6.40 | (22%) |
| DAWN Gas Daily Index (USD/MMBtu) | **4.90** | 6.10 | (20%) |
| AECO NIT 5A Gas Daily Index (CAD/GJ) | **4.30** | 4.90 | (12%) |
| STATION 2 Gas Daily Index (CAD/GJ) | **4.20** | 4.55 | (8%) |
| Exchange Rate (USD/CAD) | **0.741** | 0.769 | (4%) |
| Exchange Rate (CAD/USD) | **1.350** | 1.300 | 4% |

Financial and operating highlights for the Company's 2023 budget plan compared to its 2022 forecast are highlighted in the table below:

| **Financial and Operating Highlights**<br>($ MM, unless otherwise specified) | **2023 Budget** | 2022 Forecast | Change |
|---|---|---|---|
| Production | | | |
| Oil & NGLs (bbls/d) | **11,700 – 12,900** | 9,900 – 10,500 | 15% - 26% |
| Gas (MMcf/d) | **127.8 – 132.6** | 105.6 – 108.0 | 20% - 24% |
| Combined (BOE/d) | **33,000 – 35,000** | 27,500 – 28,500 | 18% - 25% |
| P&NG Sales | **607.0** | 617.0 | (2%) |
| Adjusted Funds from Operations | **338.0** | 325.0 | 4% |
| AFFO per share, diluted ($/share) | **1.71** | 1.66 | 3% |
| Capital Expenditures, net of A&D | **310.0** | 300.0 | 3% |
| Net Debt (Surplus), at year-end | **(28.0)** | (5.0) | 460% |

The Company retains the flexibility to either increase or decrease capital spending plans accordingly.

Management looks forward to updating shareholders with 2022 year-end results on or about March 3, 2023.

On behalf of the Board of Directors,

*[signed]*

David J. Wilson
President and Chief Executive Officer
November 10, 2022

# MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

This Management's Discussion and Analysis ("MD&A") is dated November 10, 2022 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes as at and for the three and nine months ended September 30, 2022 and its audited consolidated annual financial statements and MD&A as at and for the year ended December 31, 2021. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company's Board of Directors approved and authorized the consolidated interim financial statements for issue on November 10, 2022.

## GENERAL ADVISORY

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

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

## BASIS OF PRESENTATION

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

field condensate. References to “natural gas liquids” or “NGLs” include pentane, butane, propane, and ethane. References to “gas” include natural gas and sulphur.

**FINANCIAL AND OPERATING SUMMARY**

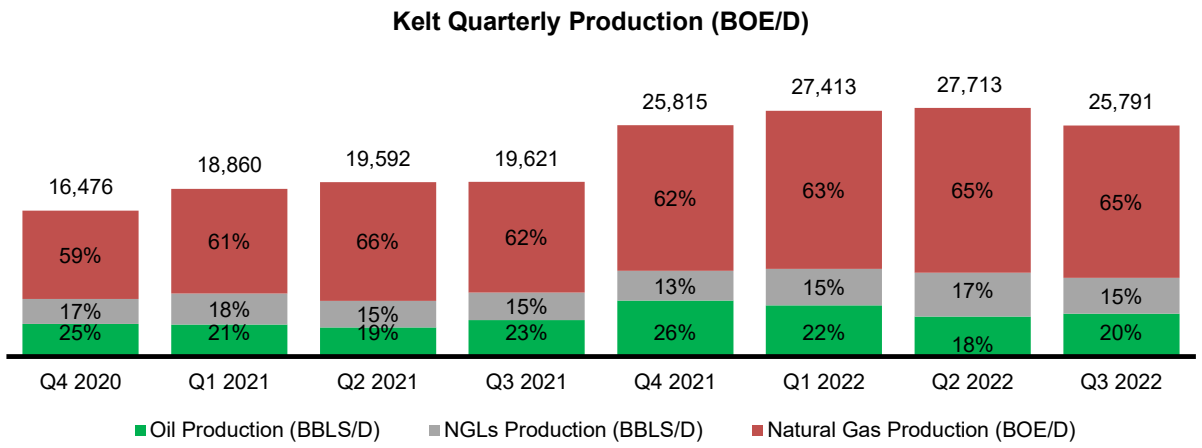
| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| **FINANCIAL PERFORMANCE** | | | | | | |
| Petroleum and natural gas sales | **143,254** | 75,761 | 89 | **460,638** | 196,240 | 135 |
| Cash provided by operating activities | **85,104** | 46,547 | 83 | **242,280** | 107,658 | 125 |
| Adjusted funds from operations [(1)] | **65,189** | 36,336 | 79 | **234,141** | 93,239 | 151 |
| Diluted ($/ common share) | **0.33** | 0.19 | 74 | **1.20** | 0.49 | 145 |
| Net income and comprehensive income | **23,089** | 3,752 | 515 | **104,520** | 61,260 | 71 |
| Diluted ($/ common share) | **0.12** | 0.02 | 500 | **0.54** | 0.32 | 69 |
| Capital expenditures, net of A&D [(1)] | **76,181** | 71,162 | 7 | **248,946** | 146,393 | 70 |
| Net debt (surplus) [(1)] | **33,537** | 28,174 | 19 | **33,537** | 28,174 | 19 |
| **OPERATIONAL PERFORMANCE** | | | | | | |
| Average daily production (BOE/d) | **25,791** | 19,621 | 31 | **26,966** | 19,360 | 39 |
| Combined net realized price, before financial instruments [(1)] | **57.74** | 41.37 | 40 | **60.81** | 36.26 | 68 |
| Combined net realized price, after financial instruments [(1)] | **48.97** | 38.33 | 28 | **52.55** | 34.33 | 53 |
| Operating netback [(1)] | **28.19** | 21.10 | 34 | **32.74** | 18.85 | 74 |

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

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

- **Production** – Third quarter 2022 production averaged 25,791 BOE per day (35% oil/NGLs), an increase of 31% from an average 19,621 BOE per day (38% oil/NGLs) in the third quarter of 2021. The third quarter of 2022 included shut-in production due to third party facility turnarounds, and the Company temporarily shutting in production due to pressure on AECO and Station 2 spot prices during pipeline maintenance on the NGTL and T-South systems.
- **Petroleum and natural gas sales –**For the three months ended September 30, 2022, petroleum and natural gas sales was $143.3 million, an increase of 89% from the third quarter of 2021. Kelt’s combined net realized price before financial instruments of $57.74 per BOE increased 40% from the third quarter of 2021.
- **Operating netback –** Kelt’s operating netback was $28.19 per BOE for the quarter ended September 30, 2022, an increase of 34% from $21.10 per BOE during the quarter ended September 30, 2021. The increase in the operating netback per BOE was driven by an increase in crude oil and natural gas prices in 2022.
- **Cash provided by operating activities / Adjusted funds from operations** – Cash provided by operating activities increased to $85.1 million in the third quarter of 2022 compared to $46.5 million in the third quarter of 2021. Adjusted funds from operations of $65.2 million ($0.33 per share, diluted) in the third quarter of 2022 increased 79% from $36.3 million ($0.19 per share, diluted) in the third quarter of 2021.
- **Net income –** Kelt reported net income of $23.1 million ($0.12 per common share, diluted) for the three months ended September 30, 2022, compared to a net income of $3.8 million ($0.02 per common share, diluted) in the comparative period in 2021.
- **Capital investments** – Capital expenditures, net of A&D, was $76.2 million and included the drilling of 9.6 net wells and completion of 8.6 net wells. Facilities, pipeline and well equipment spending was $21.9 million.
- **Liquidity** – At September 30, 2022 net debt was $33.5 million (0.1 times annualized quarterly adjusted funds from operations) which was comprised of a working capital deficiency.

## PRODUCTION




| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Average daily production: | | | | | | |
| Oil (bbls/d) [(1)] | **5,192** | 4,485 | 16 | **5,378** | 4,041 | 33 |
| NGLs (bbls/d) | **3,906** | 3,004 | 30 | **4,242** | 3,120 | 36 |
| Gas (Mcf/d) | **100,158** | 72,789 | 38 | **104,078** | 73,195 | 42 |
| Combined (BOE/d) | **25,791** | 19,621 | 31 | **26,966** | 19,360 | 39 |
| Oil and NGLs weighting | **35%** | 38% | -8 | **36%** | 37% | -3 |

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

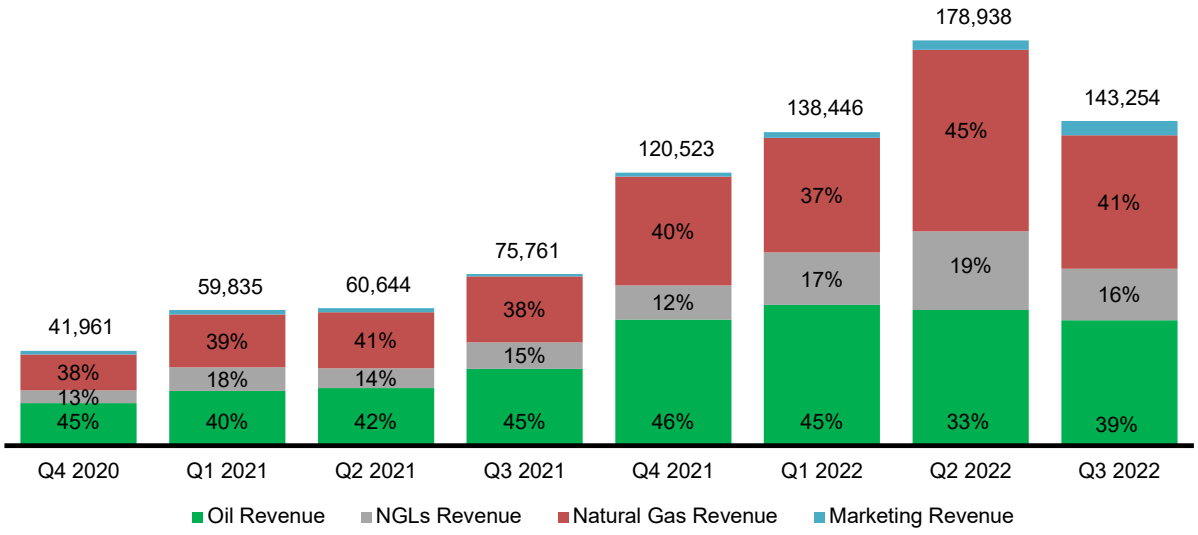
Average production for the three months ended September 30, 2022 of 25,791 BOE per day and for the nine months ended September 30, 2022 of 26,966 BOE per day increased 31% and 39%, respectively, from the comparable periods in 2021. The increase in production was a result of the Company's 2022 drilling program which included the drilling of 25.4 net wells and the completion of 26.1 net wells.

Average production for the three months ended September 30, 2022 decreased by approximately 7% from the second quarter of 2022 as a result of third party facility turnarounds, and the Company temporarily shutting in production due to low AECO and Station 2 spot prices as a result of pipeline maintenance on the NGTL and T-South systems.

Oil and NGLs weighting of 35% for the three months ending September 30, 2022 decreased from 38% in the third quarter of 2021 and oil and NGLs weighting of 36% for the nine months ending September 30, 2022 decreased from 37% from the comparable period in 2021.

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

**Kelt Quarterly Petroleum and Natural Gas Sales ($000)**



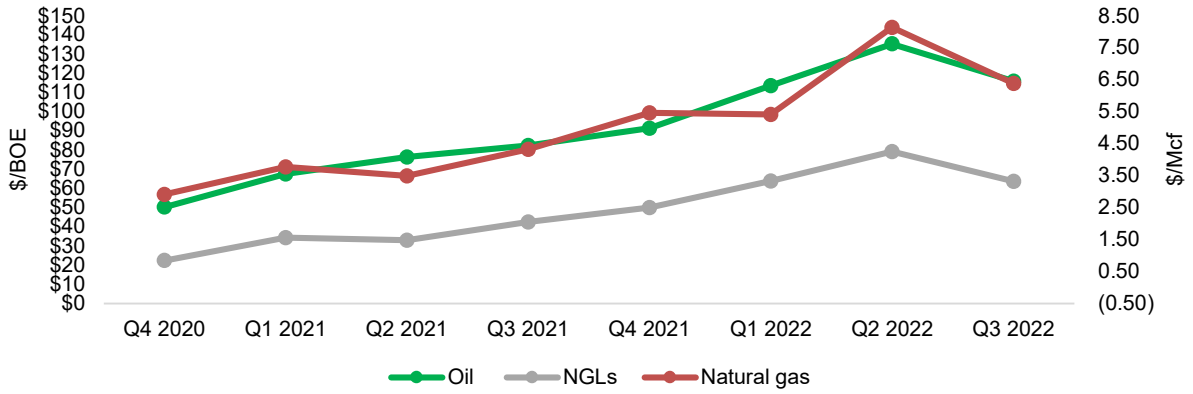

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| P&NG Sales before royalties and financial instruments: | | | | | | |
| Oil [5] | **55,280** | 33,908 | 63 | **177,343** | 83,309 | 113 |
| NGLs | **22,852** | 11,732 | 95 | **80,598** | 31,100 | 159 |
| Gas | **58,772** | 28,966 | 103 | **189,565** | 77,039 | 146 |
| P&NG Sales before marketing revenue [4][6] | **136,904** | 74,606 | 84 | **447,506** | 191,448 | 134 |
| Marketing revenue [1] | **6,350** | 1,155 | 450 | **13,132** | 4,792 | 174 |
| P&NG Sales | **143,254** | 75,761 | 89 | **460,638** | 196,240 | 135 |
| Cost of purchases [2] | **(6,260)** | (1,088) | 475 | **(12,929)** | (4,583) | 182 |
| P&NG Sales after cost of purchases [3][6] | **136,994** | 74,673 | 83 | **447,709** | 191,657 | 134 |
| Combined net realized price ($/BOE) [4][6] | **57.74** | 41.34 | 40 | **60.81** | 36.26 | 68 |

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

Petroleum and natural gas sales for the third quarter of 2022 was $143.3 million, up 89% from $75.8 million from the third quarter of 2021. Petroleum and natural gas sales for the nine months ending September 30, 2022 was $460.6 million, up 135% from the comparable period in 2021. The increase in P&NG sales from 2021 was due to a significant increase in oil and natural gas prices, and an increase in production.

Petroleum and natural gas sales of $143.3 million in the third quarter of 2022 decreased 20% from $178.9 million in the second quarter of 2022. The decrease quarter over quarter was primarily due to lower realized prices and a decrease in 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. Net realized prices exclude both realized and unrealized gains and losses on risk management contracts. Refer to additional information under the heading of *"Non-GAAP and Other Financial Measures"*.

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 | % | **2022** | 2021 | % |
| **Net realized prices** (10) | | | | | | |
| Oil ($/bbl) (9) | **115.92** | 82.35 | 41 | **120.92** | 75.71 | 60 |
| NGLs ($/bbl) | **63.59** | 42.45 | 50 | **69.60** | 36.51 | 91 |
| Gas ($/Mcf) | **6.38** | 4.32 | 48 | **6.68** | 3.86 | 73 |
| Combined ($/BOE) | **57.74** | 41.37 | 40 | **60.81** | 36.26 | 68 |
| **Average benchmark prices** | | | | | | |
| Oil and NGLs | | | | | | |
| WTI Cushing Oklahoma (US$/bbl) (1) | **93.28** | 70.61 | 32 | **98.85** | 64.83 | 52 |
| Mixed Sweet Blend Edmonton ("MSW") ($/bbl) (2) | **119.04** | 83.78 | 42 | **124.41** | 75.88 | 64 |
| Edmonton Pentane ($/bbl) (3) | **115.34** | 89.24 | 29 | **123.24** | 80.58 | 53 |
| Edmonton Butane ($/bbl) (3) | **51.66** | 59.31 | -13 | **63.95** | 41.18 | 55 |
| Edmonton Propane ($/bbl) (3) | **49.80** | 53.08 | -6 | **53.75** | 37.90 | 42 |
| Edmonton Ethane ($/bbl) (3) | **12.34** | 9.94 | 24 | **15.22** | 8.87 | 72 |
| Natural Gas | | | | | | |
| NYMEX Henry Hub (US$/MMBtu) (6) | **7.96** | 3.90 | 104 | **6.66** | 3.12 | 113 |
| AECO 5A (CA$/MMBtu) (4) | **4.16** | 3.60 | 16 | **5.38** | 3.28 | 64 |
| Chicago Alliance, into Interstates (CA$/MMBtu) (5) | **9.57** | 5.14 | 86 | **8.11** | 5.59 | 45 |
| Dawn (CA$/MMBtu) (5) | **9.63** | 5.13 | 88 | **8.17** | 4.11 | 99 |
| Malin (CA$/MMBtu) (5) | **9.81** | 5.51 | 78 | **8.23** | 4.35 | 89 |
| Sumas (CA$/MMBtu) (5) | **8.81** | 5.23 | 68 | **7.75** | 4.37 | 77 |
| Station 2 (CA$/MMBtu) (7) | **3.10** | 3.43 | -10 | **4.86** | 3.16 | 54 |
| Average exchange rate (CA$/US$) (8) | **1.3058** | 1.2601 | 4 | **1.2830** | 1.2516 | 3 |

(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 (8).

(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 (8).

(5) Source: S&P Global Platts (US$/MMBtu) Daily Midpoint Average converted to CA$/MMBtu using monthly average CA$/US$ exchange rate (8).

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

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

(8) Source: Bank of Canada.

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

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

*Combined Net Realized Price*

Kelt’s combined net realized price increased 40% to $57.74 per BOE in the third quarter of 2022 and increased 68% to $60.81 per BOE in the nine months ending September 30, 2022 versus the comparable periods in 2021. The increase in the average realized price was primarily due to an increase in benchmark commodity prices in 2022.

*Oil prices*

WTI crude oil prices increased 32% for the quarter ended September 30, 2022 and increased 52% for the nine months ended September 30, 2022 versus the comparable periods in 2021. For the first six months of 2022, crude oil prices increased due to global sanctions on Russian exports and imports as a result of the conflict in Ukraine, reduced capital directed towards production growth and major energy projects, and a significant reduction of global crude inventories. Benchmark crude oil prices then decreased in the third quarter of 2022 as a result of the United States releasing significant amounts of crude oil from its strategic petroleum reserves, COVID-19 lockdowns continuing in China, and a slowdown in the global economy impacting crude oil demand.

*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, 2022, Kelt’s realized NGLs price increased 50% and 91%, respectively, as compared to the same period in 2021. The increase was primarily due to an increase in benchmark WTI prices and regional improvements in NGLs prices.

*Natural gas prices*

Kelt’s realized natural gas price increased by 48% to $6.38 per Mcf in the third quarter of 2022 and by 73% to $6.68 per Mcf for the nine months ended September 30, 2022 versus comparable periods in 2021.

Canadian natural gas benchmark prices increased in the first six months of 2022 compared to 2021 due to a combination of increased Alberta and North American natural gas demand and higher pipeline and LNG exports when compared to historical five-year averages. Canadian natural gas benchmark prices decreased in the third quarter of 2022 compared to the second quarter of 2022 as a result of pipeline maintenance on the NGTL and T-South gas pipeline systems.

For the nine months ending September 30, 2022, Kelt sold 72% of its natural gas production at the AECO 5A and Station 2 indices with the remainder of production primarily sold at the Dawn, and Chicago indices.

## 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)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Realized loss | **(20,820)** | (5,488) | 279 | **(60,788)** | (10,201) | 496 |
| Unrealized gain (loss) | **(2,686)** | (6,698) | -60 | **358** | (14,237) | -103 |
| Loss on derivative financial instruments | **(23,506)** | (12,186) | 93 | **(60,430)** | (24,438) | 147 |
| $ per BOE | **(9.90)** | (6.75) | 47 | **(8.21)** | (4.62) | 78 |

*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 November 10, 2022, the following commodity price risk management contracts are outstanding:

**Natural gas derivative contracts**

| Contract Type [2] | Notional Volume | Contract Price $/MMBtu | Remaining Term |
|---|---|---|---|
| NYMEX fixed price swap | 45,000 MMBtu/d | CAD$5.58 | Oct 22 |
| NYMEX fixed price swap | 20,000 MMBtu/d | CAD$10.12 | Nov 22 – Feb 23 |
| NYMEX fixed price swap | 10,000 MMBtu/d | CAD$10.15 | Mar 23 |
| NYMEX-AECO basis swap | 10,000 MMBtu/d | NYMEX less USD$1.42 | Nov 22 – Mar 23 |
| NYMEX-AECO basis swap | 10,000 MMBtu/d | Monthly AECO basis calculated at 30% of the floating monthly NYMEX price | Apr 23 – Oct 24 |
| NYMEX-AECO basis swap | 30,000 MMBtu/d | NYMEX less USD$1.10 | Nov 24 – Oct 25 |

| Costless Collars [2] | Notional Volume | Floor Price $/MMBtu | Ceiling Price $/MMBtu | Remaining Term |
|---|---|---|---|---|
| NYMEX costless collar | 10,000 MMBtu/d | CAD$9.00 | CAD$16.40 | Nov 22 – Mar 23 |
| NYMEX costless collar | 10,000 MMBtu/d | CAD$9.00 | CAD$18.15 | Nov 22 – Mar 23 |
| NYMEX costless collar | 10,000 MMBtu/d | CAD$9.50 | CAD$17.00 | Nov 22 – Mar 23 |

**Crude oil derivative contracts**

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

| Costless Collars [1] | Notional Volume | Floor Price $/bbl | Ceiling Price $/bbl | Remaining Term |
|---|---|---|---|---|
| WTI costless collar | 1,000 bbl/d | CAD$100 | CAD$130 | Jan 23 – Mar 23 |
| WTI costless collar | 1,000 bbl/d | CAD$102 | CAD$128 | Jan 23 – Mar 23 |

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

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

**Natural gas physical delivery contracts**

| Contract Type [1] | Notional Volume | Contract Price | Remaining Term |
|---|---|---|---|
| AECO (physical) fixed price | 25,000 GJ/d | CAD$5.50/GJ | Nov 22 |
| AECO (physical) fixed price | 25,000 GJ/d | CAD$5.92/GJ | Dec 22 |

| Contract Type [1] | Notional Volume | Contract Price | Remaining Term |
|---|---|---|---|
| AESO power pool fixed heat factor | 7,458 GJ/d | Floating AESO Power Pool Price (CAD/MWh)/Fixed Heat Rate of 16.95 GJ/MWh | Nov 22 – Mar 23 |

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

*Interest rate risk*

The Company's Credit Facility is subject to a floating interest rate and is exposed to interest rate risk. As of November 10, 2022, the Company has no bank debt and no interest rate risk management contracts outstanding.

*Foreign exchange risk*

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

As at November 10, 2022, the following foreign exchange risk management contracts are outstanding:

| Contract Type | Notional Volume | Contract Price | Remaining Term |
|---|---|---|---|
| CAD/USD swap | USD$3,000,000/month | $1.3625 CAD/USD | Jan 23 – Dec 23 |

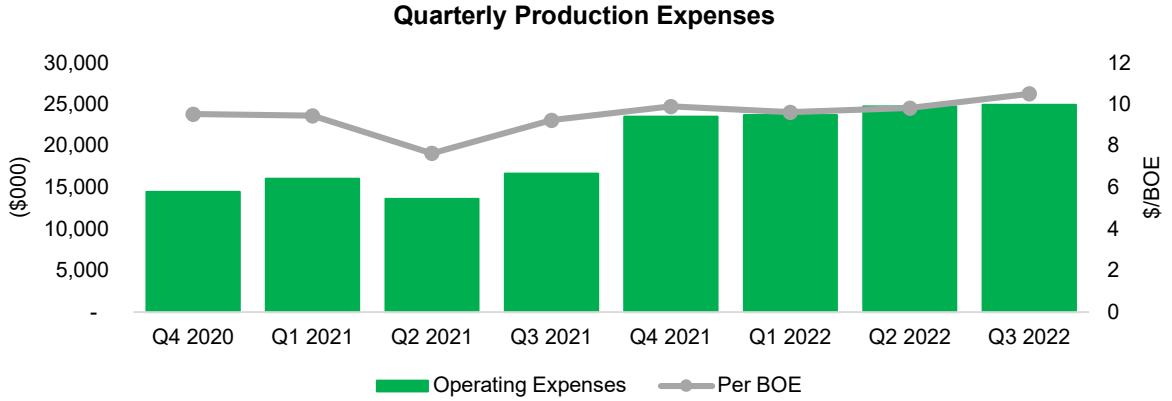
## ROYALTIES

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Royalties | **16,697** | 7,937 | 110 | **49,703** | 17,513 | 184 |
| Average royalty rate [1] | **12.2%** | 10.6% | 15 | **11.1%** | 9.1% | 22 |
| $ per BOE | **7.04** | 4.40 | 60 | **6.75** | 3.31 | 104 |

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

Kelt's average royalty rate was 12.2% during the third quarter of 2022, compared to 10.6% during the third quarter of 2021 and 11.1% for the nine months ending September 30, 2022 versus 9.1% in the same period in 2021. A significant portion of the Company's production in Alberta and British Columbia is subject to low initial royalty rates of 5% - 6%, prior to any additional credits. In 2022, a number of wells moved off the initial royalty rate, and are now subject to royalty rates that are sensitive to commodity prices, resulting in an increase in the overall royalty rate in 2022.

## PRODUCTION EXPENSES

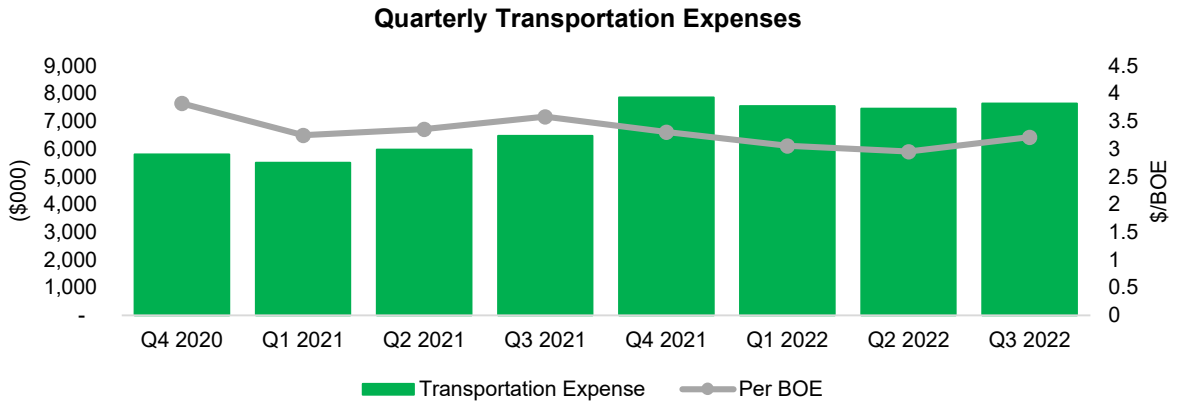


| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Production expense | **24,955** | 16,682 | 50 | **73,450** | 46,367 | 58 |
| $ per BOE | **10.52** | 9.24 | 14 | **9.98** | 8.77 | 14 |

Production expenses were $25.0 million during the third quarter of 2022, up 50% from the comparative quarter in 2021. Production expenses averaged $10.52 per BOE during the third quarter of 2022, compared to $9.24 per BOE in the same period in 2021. The 14% increase in the production expense per BOE was primarily due to a decrease in production as a result of shut-in production and third-party facility maintenance activities, while operating costs remained relatively fixed which resulted in a higher cost per BOE.

Production expenses of $73.5 million during the first nine months of 2022 increased 58% from $46.4 million during the nine months ending September 30, 2021. Production expenses averaged $9.98 per BOE during the nine months ending September 30, 2022, up from $8.77 per BOE for the nine months ending September 30, 2021. The increase in 2022 was primarily related to non-recurring operating expense credits from third party facilities of $2.0 million that was received in the second quarter of 2021, and a decrease in production in the third quarter of 2022 which resulted in higher overall per BOE costs in the nine months ended September 30, 2022.

**TRANSPORTATION EXPENSES**




| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Transportation expense [(1)] | **7,645** | 6,483 | 18 | **22,664** | 17,983 | 26 |
| $ per BOE | **3.22** | 3.59 | -10 | **3.08** | 3.40 | -9 |

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

Transportation expenses during the third quarter of 2022 averaged $3.22 per BOE, a decrease of 10% compared to the third quarter of 2021. For the nine months ending September 30, 2022, transportation expenses averaged $3.08 per BOE, a decrease of 9% from $3.40 per BOE in the same period in 2021. The decrease in transportation expense is due to Kelt proportionally increasing its exposure to AECO 5A and Station 2 indices in 2022, resulting in lower transportation costs on a BOE basis.

## FINANCING EXPENSES

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Total interest expense | **265** | 31 | 755 | **879** | 144 | 510 |
| Accretion of decommissioning obligations | **661** | 534 | 24 | **1,730** | 1,442 | 20 |
| Total financing expense | **926** | 565 | 64 | **2,609** | 1,586 | 65 |
| Interest expense per BOE [(1)] | **0.11** | 0.02 | 450 | **0.12** | 0.03 | 300 |
| Average interest rates: | | | | | | |
| Bank debt [(2)] | **5.5%** | NA | - | **4.7%** | NA | - |

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

(2) Average interest rate excludes fees on bank debt which include bank commitment, standby and guarantee letter fees. For the nine months ended September 30, 2021, Kelt did not have any outstanding bank debt.

Throughout the first nine months of 2022, the Company drew on its credit facility periodically and incurred standby fees, resulting in interest expense of $0.9 million. As at September 30, 2022, there were no amounts drawn on Kelt's credit facility.

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

## GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Salaries and benefits | **2,656** | 2,467 | 8 | **8,277** | 6,741 | 23 |
| Other G&A expenses | **1,264** | 875 | 44 | **4,164** | 2,702 | 54 |
| Gross G&A expenses | **3,920** | 3,342 | 17 | **12,441** | 9,443 | 32 |
| Overhead recoveries | **(1,879)** | (1,403) | 34 | **(5,698)** | (3,078) | 85 |
| G&A expense, net of recoveries | **2,041** | 1,939 | 5 | **6,743** | 6,365 | 6 |
| Gross G&A ($ per BOE) | **1.65** | 1.85 | -11 | **1.69** | 1.79 | -6 |
| Net G&A ($ per BOE) | **0.86** | 1.07 | -20 | **0.92** | 1.20 | -23 |

Net G&A expenses averaged $0.86 per BOE during the third quarter of 2022, a decrease of 20% compared to $1.07 per BOE during the third quarter of 2021. For the nine months ended September 30, 2022, net G&A expenses averaged $0.92 per BOE which decreased by 23% compared to $1.20 per BOE during same period in 2021. The decrease in net G&A expenses per BOE was primarily due to higher overhead recoveries.

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

## SHARE BASED COMPENSATION ("SBC")

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Stock options | **1,711** | 854 | 100 | **4,223** | 2,261 | 87 |
| Restricted share units ("RSUs") | **305** | 323 | -6 | **804** | 948 | -15 |
| Total SBC expense | **2,016** | 1,177 | 71 | **5,027** | 3,209 | 57 |
| $ per BOE | **0.85** | 0.65 | 31 | **0.68** | 0.61 | 11 |

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

As at September 30, 2022, stock options and RSUs outstanding represent 6.1% of total shares outstanding (December 31, 2021 – 6.0%).

## DEPLETION, DEPRECIATION AND IMPAIRMENT REVERSAL

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Depletion and depreciation | **28,856** | 22,563 | 28 | **88,001** | 64,315 | 37 |
| Impairment reversal | **-** | - | - | **-** | (70,130) | -100 |
| Total | **28,856** | 22,563 | 28 | **88,001** | (5,815) | -1613 |
| Depletion and depreciation ($/BOE) | **12.16** | 12.50 | -3 | **11.95** | 12.17 | -2 |
| Impairment reversal ($/BOE) | **-** | - | - | **-** | (13.27) | -100 |

Depletion and depreciation expense of $28.9 million for the quarter ended September 30, 2022 increased by 28% from $22.6 million in the comparable period in 2021. Depletion and depreciation expense of $88.0 million for the nine months ended September 30, 2022 increased by 37% from $64.3 million in comparable period in 2021. The increase was primarily due to an increase in production. On a per BOE basis, the depletion and depreciation expense is consistent with the same periods in 2021.

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

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

## INCOME TAXES

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Deferred income tax expense | **7,963** | 2,054 | 288 | **35,029** | 19,504 | 80 |
| Net income before taxes | **31,052** | 5,806 | 435 | **139,549** | 80,764 | 73 |
| Effective tax recovery rate | **25.6%** | 35.4% | -28 | **25.1%** | 24.1% | 4 |

Kelt's consolidated combined federal and provincial statutory tax rate averaged 24.3% and 23.0% during the three months ended September 30, 2022 and 2021, respectively. The Company is not expected to have any cash income taxes payable in 2022.

The Company's consolidated tax pools are estimated to be $791.9 million as of September 30, 2022, as summarized in the table below.

| *(CA$ thousands, unless otherwise indicated)* | Rate | **September 30 2022** | December 31 2021 | % change |
|---|---|---|---|---|
| Canadian oil and gas property expenses (COGPE) | 10-15% | **68,516** | 73,107 | -6 |
| Canadian development expenses (CDE) | 30-45% | **202,938** | 125,246 | 62 |
| Canadian exploration expenses (CEE) | 100% | **5,704** | 22,538 | -75 |
| Undepreciated capital cost [(1)] (UCC) | 25-37.5% | **225,411** | 196,613 | 15 |
| Share and debt issue costs (SIC/DIC) | 5 years | **66** | 240 | -73 |
| Non-capital losses [(2)] (NCL) | 100% | **289,284** | 356,439 | -19 |
| Estimated tax deductions available, end of period | | **791,919** | 774,183 | 2 |

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

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

## ADJUSTED FUNDS FROM OPERATIONS

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

| **THREE MONTHS ENDED SEPTEMBER 30TH** | Amount | | | $/BOE | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Petroleum and natural gas sales | **143,254** | 75,761 | 89 | **60.38** | 41.97 | 44 |
| Cost of purchases | **(6,260)** | (1,088) | 475 | **(2.64)** | (0.60) | 340 |
| Realized loss on financial instruments (1) | **(20,820)** | (5,488) | 279 | **(8.77)** | (3.04) | 188 |
| Royalties | **(16,697)** | (7,937) | 110 | **(7.04)** | (4.40) | 60 |
| Revenue, after royalties and financial instruments | **99,477** | 61,248 | 62 | **41.93** | 33.93 | 24 |
| Production expense | **(24,955)** | (16,682) | 50 | **(10.52)** | (9.24) | 14 |
| Transportation expense | **(7,645)** | (6,483) | 18 | **(3.22)** | (3.59) | -10 |
| **Operating netback (2)** | **66,877** | 38,083 | 76 | **28.19** | 21.10 | 34 |
| Financing expense (3) | **(265)** | (31) | 755 | **(0.11)** | (0.02) | 450 |
| G&A expense | **(2,041)** | (1,939) | 5 | **(0.86)** | (1.07) | -20 |
| Realized gain (loss) on foreign exchange | **551** | 98 | 462 | **0.23** | 0.05 | 360 |
| Other income | **67** | 125 | -46 | **0.03** | 0.07 | -57 |
| **Adjusted funds from operations (2)** | **65,189** | 36,336 | 79 | **27.48** | 20.13 | 37 |
| Basic ($ per common share) (4) | **0.34** | 0.19 | 79 | | | |
| Diluted ($ per common share) (4) | **0.33** | 0.19 | 74 | | | |
| Common shares outstanding (000s): | | | | | | |
| Basic, weighted average | **191,812** | 188,842 | 2 | | | |
| Diluted, weighted average | **196,118** | 191,092 | 3 | | | |

| **NINE MONTHS ENDED SEPTEMBER 30TH** | Amount | | | $/BOE | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, unless otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Petroleum and natural gas sales | **460,638** | 196,240 | 135 | **62.57** | 37.13 | 69 |
| Cost of purchases | **(12,929)** | (4,583) | 182 | **(1.76)** | (0.87) | 102 |
| Realized loss on financial instruments (1) | **(60,788)** | (10,201) | 496 | **(8.26)** | (1.93) | 328 |
| Royalties | **(49,703)** | (17,513) | 184 | **(6.75)** | (3.31) | 104 |
| Revenue, after royalties and financial instruments | **337,218** | 163,943 | 106 | **45.80** | 31.02 | 48 |
| Production expense | **(73,450)** | (46,367) | 58 | **(9.98)** | (8.77) | 14 |
| Transportation expense | **(22,664)** | (17,983) | 26 | **(3.08)** | (3.40) | -9 |
| **Operating netback (2)** | **241,104** | 99,593 | 142 | **32.74** | 18.85 | 74 |
| Financing expense (3) | **(879)** | (144) | 510 | **(0.12)** | (0.03) | 300 |
| G&A expense | **(6,743)** | (6,365) | 6 | **(0.92)** | (1.20) | -23 |
| Realized gain (loss) on foreign exchange | **569** | (80) | -811 | **0.08** | (0.01) | -900 |
| Other income/expense | **90** | 235 | -62 | **0.01** | 0.04 | -75 |
| **Adjusted funds from operations (2)** | **234,141** | 93,239 | 151 | **31.79** | 17.65 | 80 |
| Basic ($ per common share) (4) | **1.23** | 0.49 | 151 | | | |
| Diluted ($ per common share) (4) | **1.20** | 0.49 | 145 | | | |
| Common shares outstanding (000s): | | | | | | |
| Basic, weighted average | **190,799** | 188,688 | 1 | | | |
| Diluted, weighted average | **195,159** | 190,299 | 3 | | | |

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

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

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

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

During the quarter ended September 31, 2022, adjusted funds from operations of $65.2 million ($0.33 per share, diluted) increased by 79% from $36.3 million ($0.19 per share, diluted) compared to the quarter ended September 30, 2021. During the nine months ended September 30, 2022, adjusted funds from operations of $234.1 million ($1.20 per share, diluted) increased by 151% from $93.2 million ($0.49 per share, diluted) versus the nine months ended September 30, 2021. The increase in adjusted funds from operations for both the three and nine months ended September 30, 2022 compared to the same period in 2021 is primarily attributed to an increase in petroleum and natural gas sales of 89% and 135%, respectively.

## NET INCOME AND COMPREHENSIVE INCOME

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Net income and comprehensive income | **23,089** | 3,752 | 515 | **104,520** | 61,260 | 71 |
| $ per common share, basic | **0.12** | 0.02 | 500 | **0.55** | 0.32 | 72 |
| $ per common share, diluted (1) | **0.12** | 0.02 | 500 | **0.54** | 0.32 | 69 |
| $ per BOE | **9.70** | 2.08 | 366 | **14.17** | 11.60 | 22 |
| Wtd avg. shares outstanding, basic (000s) | **191,812** | 188,842 | 2 | **190,799** | 188,688 | 1 |
| Wtd avg. shares outstanding, diluted (000s) (1) | **196,118** | 191,092 | 3 | **195,159** | 190,299 | 3 |

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted net income per common share.

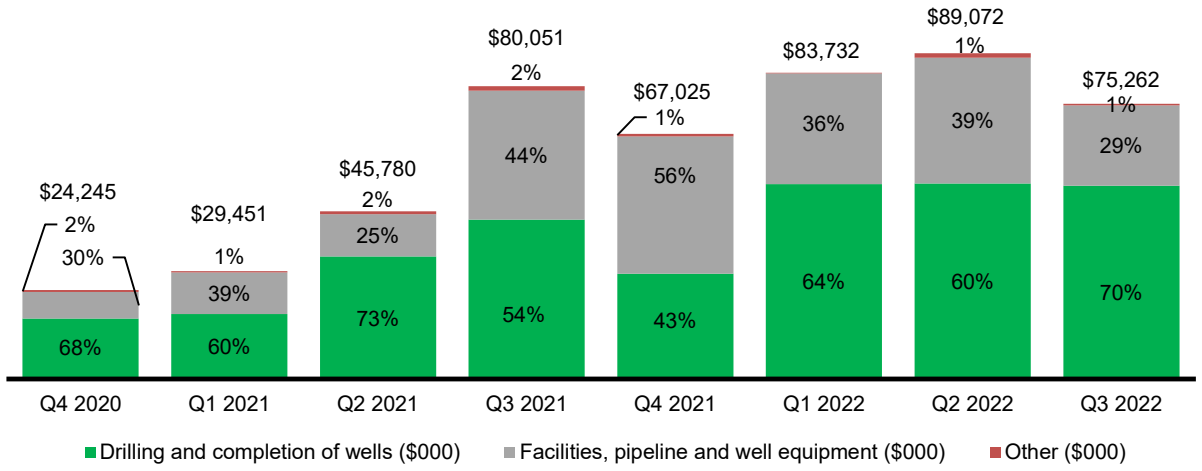
Kelt reported net income of $23.1 million ($0.12 per common share, diluted) for the three months ended September 30, 2022, compared to a net income of $3.8 million ($0.02 per common share, diluted) in the same three-month period of 2021. The increase to net income is primarily due to a $28.9 million increase in adjusted funds from operations.

Kelt reported net income of $104.5 million ($0.54 per common share, diluted) for the nine months ended September 30, 2022, compared to a net income of $61.3 million ($0.32 per common share, diluted) in the same period of 2021. The increase in net income is primarily due to a $140.9 million increase in adjusted funds from operations. 2021 net income included an impairment reversal of $54.0 million (after-tax).

## INVESTING ACTIVITIES

### CAPITAL EXPENDITURES

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




| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | % | **2022** | 2021 | % |
| Capital expenditures: | | | | | | |
| Lease acquisition and retention | **299** | 590 | -49 | **1,044** | 1,313 | -20 |
| Geological and geophysical | **58** | 2 | 2800 | **92** | 41 | 124 |
| Drilling and completion of wells | **52,846** | 43,572 | 21 | **159,468** | 94,755 | 68 |
| Facilities, pipeline and well equipment | **21,940** | 35,262 | -38 | **86,734** | 58,159 | 49 |
| Corporate assets | **119** | 625 | -81 | **728** | 1,014 | -28 |
| Capital expenditures, before A&D [(1)] | **75,262** | 80,051 | -6 | **248,066** | 155,282 | 60 |
| Property acquisitions | **3,398** | 200 | 1599 | **3,400** | 216 | 1474 |
| Property dispositions | **(2,479)** | (9,089) | -73 | **(2,520)** | (9,105) | -72 |
| Capital expenditures, net of A&D [(1)] | **76,181** | 71,162 | 7 | **248,946** | 146,393 | 70 |

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

Capital expenditures, before A&D, decreased 6% in the third quarter of 2022 compared to the same quarter in 2021 and increased 60% from the nine months ending September 30, 2022 versus the comparable period in 2021.

In the third quarter of 2022, drilling and completion costs of $52.8 million included the drilling of 9.6 net wells and completion of 8.6 net wells. Kelt's facility, pipeline and well equipment spending in the third quarter of 2022 of $21.9 million focused on well equipment, pipeline construction and facility optimization work.

### DRILLING

| | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---|---|---|---|---|---|
| Net wells | **2022** | 2021 | % | **2022** | 2021 | **%** |
| Drilling | **9.6** | 5.0 | 92 | **25.4** | 18.0 | 41 |
| Completion | **8.6** | 11.0 | -22 | **26.1** | 20.0 | 31 |

## CAPITAL RESOURCES AND LIQUIDITY

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

As of September 30, 2022 the Company had a $100.0 million demand and revolving term facility ("the Credit Facility") with a syndicate of financial institutions. The Credit Facility, which is subject to semi-annual redeterminations, may be extended annually at Kelt's option, subject to lender approval, with a 364 day term-out period if not renewed. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a $800 million demand debenture with a floating charge over all the Company's assets.

| *CA$ thousands, unless otherwise indicated)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Bank debt | **-** | 1,150 |
| Accounts payable and accrued liabilities | **107,887** | 72,453 |
| Cash and cash equivalents | **(21,141)** | (719) |
| Accounts receivable and accrued sales | **(50,017)** | (42,584) |
| Prepaid expenses and deposits | **(3,192)** | (2,080) |
| Net debt (surplus) [(1)] | **33,537** | 28,220 |
| Annualized quarterly adjusted funds from operations [(1)(2)] | **260,756** | 272,620 |
| Net debt (surplus) to annualized quarterly adjusted funds from operations ratio [(1)] | **0.1** | 0.1 |

(1) Refer to advisories regarding Capital Management Measures.

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

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

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

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

| *(CA$ thousands, unless otherwise indicated)* | Within 1 Year | 1 to 5 Years | More than 5 Years | **Total** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 107,887 | - | - | **107,887** |
| Derivative financial instruments | 5,998 | - | - | **5,998** |
| Lease liability | 565 | 569 | - | **1,134** |
| **Total** | **114,450** | **569** | **-** | **115,019** |

## COMMITMENTS

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

| | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter |
|---|---|---|---|---|---|---|
| Firm processing commitments | 4,087 | 17,390 | 26,546 | 37,281 | 36,982 | 290,579 |
| Firm transportation commitments | 6,865 | 28,769 | 27,288 | 25,034 | 23,615 | 50,780 |
| Total commitments | **10,952** | **46,159** | **53,834** | **62,315** | **60,597** | **341,359** |

In 2022, Kelt entered into two gas processing agreements with third party midstream companies. The gas processing plants are expected to become operational in the in the fourth quarter of 2023 and in the fourth quarter of 2024, with a total expected increase of approximately $300 million to Kelt's future payments under these agreements.

## 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, 2022 there were 192.0 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 2022, 23.3 million common shares traded on the TSX at a weighted average price of $6.07 per common share, compared to a volume weighted average trading price of $3.20 per common share during the year ended December 31, 2021.

As at September 30, 2022, officers, directors, and employees have been granted options to purchase 10.8 million common shares of the Company at an average exercise price of $3.77 per common share. In addition, there are 0.9 million RSUs outstanding. Additional information regarding the Company's stock options and RSUs is included in note 10 of the interim financial statements.

## OFF-BALANCE SHEET TRANSACTIONS

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

## SUMMARY OF QUARTERLY RESULTS

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

| *(CA$ thousands, except as otherwise indicated)* | **Q3 2022** | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 |
|---|---|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | **143,254** | 178,938 | 138,446 | 120,523 | 75,761 | 60,644 | 59,835 | 41,961 |
| Cash provided by operating activities | **85,104** | 91,623 | 65,553 | 52,056 | 46,547 | 34,529 | 26,582 | 3,288 |
| Adjusted funds from operations [(1)] | **65,189** | 94,783 | 74,169 | 68,155 | 36,336 | 29,452 | 27,451 | 10,758 |
| Per share – basic ($/common share) [(1)] | **0.34** | 0.50 | 0.39 | 0.36 | 0.19 | 0.16 | 0.15 | 0.06 |
| Per share – diluted ($/common share) [(1)] | **0.33** | 0.48 | 0.38 | 0.35 | 0.19 | 0.15 | 0.14 | 0.06 |
| Net income and comprehensive income | **23,089** | 70,711 | 10,720 | 52,996 | 3,752 | 54,654 | 2,854 | 26,018 |
| Per share – basic ($/common share) | **0.12** | 0.37 | 0.06 | 0.28 | 0.02 | 0.29 | 0.02 | 0.14 |
| Per share – diluted ($/common share) | **0.12** | 0.36 | 0.06 | 0.28 | 0.02 | 0.29 | 0.02 | 0.14 |
| Capital expenditures, net of A&D [(1)] | **76,181** | 89,072 | 83,693 | 67,118 | 71,162 | 45,786 | 29,446 | 24,470 |
| Total assets | **1,078,619** | 1,035,372 | 967,119 | 913,497 | 872,212 | 842,454 | 775,033 | 759,987 |
| Bank debt | **-** | - | - | 1,150 | - | - | - | - |
| Net debt (surplus) [(1)] | **33,537** | 23,117 | 34,685 | 28,220 | 28,174 | (6,696) | (24,303) | (27,655) |
| Shareholders' equity | **845,103** | 818,734 | 739,673 | 722,724 | 668,561 | 663,284 | 607,285 | 603,684 |
| Average daily production (BOE/d) | **25,791** | 27,713 | 27,413 | 25,815 | 19,621 | 19,592 | 18,860 | 16,476 |
| Combined net realized price ($/BOE) [(1)(2)] | **48.97** | 58.50 | 49.96 | 47.39 | 38.33 | 31.49 | 33.07 | 23.90 |
| Operating netback ($/BOE) [(1)] | **28.19** | 38.52 | 31.26 | 30.00 | 21.10 | 17.68 | 17.67 | 8.40 |
| Operating netback % of combined net realized price [(2)] | **58%** | 66% | 63% | 63% | 55% | 56% | 53% | 35% |

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

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

In 2020, the COVID-19 pandemic resulted in an unprecedented reduction in global crude oil demand causing benchmark crude oil prices to decline. Throughout 2021 and into 2022 global crude oil prices steadily increased due to increasing demand, OPEC+ production curtailments, and low levels of capital investment in both OPEC+ and non-

OPEC nations. In 2022, the Russian and Ukrainian conflict resulted in further volatility of crude prices, however the upward pressure on crude oil prices was offset by the US releasing crude oil from its strategic reserves.

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

Kelt's business objective is for long-term profitable growth by implementing a full cycle exploration and development program. Over the past eight quarters, Kelt has focused on its development capital program which has resulted in higher average daily production and adjusted funds from operations.

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 – 2023 BUDGET

The Company's Board of Directors has approved a capital expenditure budget of $310.0 million for 2023. Kelt expects to drill 35 gross wells (34.0 net wells), and complete 36 gross wells (35.0 net wells).

Forecasted average production for 2023 is estimated to be in the range of 33,000 to 35,000 BOE per day, representing an estimated 18 to 25% growth from 2022. Kelt's forecasted 2023 production is expected to be weighted approximately 36% to oil and NGLs and 64% to natural gas.

WTI crude oil prices are forecasted to average US$78.00 per barrel in 2023, and Canadian Light Sweet is forecasted to average $99.90 per barrel in 2023, a decrease of 17% over the forecasted 2022 prices. Natural gas prices are forecast to average $4.30 per GJ for AECO and US$5.00 per MMBtu for NYMEX Henry Hub in 2023, a decrease of 12% and 22%, respectively over the forecasted 2022 prices.

The Company is forecasting 2023 adjusted funds from operations of $338.0 million ($1.71 per common share, diluted), an increase of 4% from 2022. Kelt estimates a net debt surplus of $28.0 million at December 31, 2023.

The table below outlines the Company's forecast assumptions and expected financial and operating results for 2023 with a comparison to the latest guidance for 2022:

| *(CA$ millions, except as otherwise indicated)* | **2023 Budget** | 2022 Updated Guidance | % Change |
|---|---|---|---|
| Average Production | | | |
| Oil and NGLs (bbls/d) | **11,700 – 12,900** | 9,900 – 10,500 | 15 – 26 |
| Gas (MMcf/d) | **127.8 – 132.6** | 105.6 – 108.0 | 20 – 24 |
| Combined (BOE/d) | **33,000 – 35,000** | 27,500 – 28,500 | 18 – 25 |
| Forecasted Average Commodity Prices | | | |
| WTI oil price (US$/bbl) | **78.00** | 94.50 | -17 |
| Canadian Light Sweet ($/bbl) | **99.90** | 120.00 | -17 |
| NYMEX natural gas price (US$/MMBtu) | **5.00** | 6.40 | -22 |
| AECO natural gas price ($/GJ) | **4.30** | 4.90 | -12 |
| Average Exchange Rate (US$/CA$) | **0.7407** | 0.7692 | -4 |

| *(CA$ millions, except as otherwise indicated)* | **2023 Budget** | 2022 Updated Guidance | % Change |
|---|---|---|---|
| Capital Expenditures | | | |
| Drilling & Completions | **220.0** | 183.0 | 20 |
| Equipment, Facilities & Pipeline Infrastructure | **70.0** | 112.0 | -38 |
| Land, Seismic & Asset Acquisitions, net of Property Dispositions | **20.0** | 5.0 | 300 |
| Capital Expenditures, net of A&D (1) | **310.0** | 300.0 | 3 |
| Petroleum and natural gas sales | **607.0** | 617.0 | -2 |
| Adjusted funds from operations (1) | **338.0** | 325.0 | 4 |
| Per common share, diluted (1) | **1.71** | 1.66 | 3 |
| Net debt (surplus), at year end (1) | **(28.0)** | (5.0) | 460 |
| Weighted average common shares outstanding (millions) (1) | **192.2** | 191.1 | 1 |

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

Due to downtime experienced at the TWM Pipestone Gas Plant and temporary shut-ins of gas production when AECO and Station 2 prices were weak due to pipeline maintenance, Kelt is reducing its 2022 production guidance to be in the range of 27,500 to 28,500 BOE per day (previously forecasted to be in the range of 28,500 to 29,500 BOE per day). In addition, Kelt is reducing its petroleum and natural gas sales to $617.0 million (from $657.0 million previously), reducing its adjusted funds from operations decreased to $325.0 million (from $342.5 million previously), and reducing its net surplus to $5.0 million (from $17.5 million previously).

Canadian Light Sweet is forecasted to average to $120.00 per barrel (from $119.05 per barrel previously) in 2022, NYMEX natural gas is forecasted to average US$6.40 per MMBtu (from US$6.90 per MMBtu previously), AECO natural gas is forecasted to average $4.90 per GJ (from $5.30 per GJ previously) and the US$/CA$ foreign exchange rate is forecasted to average $0.7692 (from $0.7764 previously).

Capital expenditures, net of A&D is forecasted to be $300.0 million in 2022, unchanged from the previous guidance. Drilling and completions is forecasted at $183.0 million, equipment, facilities and pipeline infrastructure is forecasted at $112.0 million and land, seismic and asset acquisitions, net of property dispositions, is forecasted at $5.0 million.

The Company retains 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 2023 would increase/decrease forecasted adjusted funds from operations by approximately $25.3 million. A 10% increase/decrease in the Company's average gas price forecasted for 2023 would increase/decrease adjusted funds from operations by approximately $17.9 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, 2021 consolidated annual financial statements.

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

loss provision and the general collectability of its accounts receivables, and its liquidity and going concern assessment.

## DISCLOSURE CONTROLS AND PROCEDURES

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

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no changes to the Company's internal controls over financial reporting during the interim period from July 1, 2022 to September 30, 2022 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

## NON-GAAP AND OTHER FINANCIAL MEASURES

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

## NON-GAAP FINANICAL MEASURES

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

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

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

### Net realized price

Net realized price is a non-GAAP measure and is calculated by dividing the Company's P&NG sales after cost or purchases by the Company's production and reflects Kelt's realized selling prices plus the net benefit of oil blending/marketing activities. In addition to using its own production, the Company may purchase butane and crude oil

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

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

**Operating netback**

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

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

**Capital Expenditures**

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **2022** | 2021 | **2022** | 2021 |
| **Cash provided by investing activities** | **74,331** | 57,263 | **233,029** | 117,119 |
| Change in non-cash investing working capital | **1,850** | 13,899 | **15,917** | 29,274 |
| **Capital expenditures, net of A&D** | **76,181** | 71,162 | **248,946** | 146,393 |
| Property acquisitions | **(919)** | - | **(921)** | (16) |
| Property dispositions | **-** | 8,889 | **41** | 8,905 |
| **Capital expenditures, before A&D** | **75,262** | 80,051 | **248,066** | 155,282 |

## CAPITAL MANAGEMENT MEASURES

**Adjusted funds from operations and annualized quarterly adjusted funds from operations**

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

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

| | Three months ended | | | Nine months ended | |
|---|---|---|---|---|---|
| *(CA$ thousands, except as otherwise indicated)* | **September 30, 2022** | September 30, 2021 | December 31, 2021 | **September 30, 2022** | September 30, 2021 |
| **Cash provided by operating activities** | **85,104** | 46,547 | 52,056 | **242,280** | 107,658 |
| Change in non-cash working capital | **(20,502)** | (10,412) | 15,058 | **(10,972)** | (16,961) |
| Funds from operations | **64,602** | 36,135 | 67,114 | **231,308** | 90,697 |
| Settlement of decommissioning obligations | **587** | 201 | 1,041 | **2,833** | 2,542 |
| **Adjusted funds from operations** | **65,189** | 36,336 | 68,155 | **234,141** | 93,239 |
| **Annualized quarterly adjusted funds from operations** | **260,756** | 145,344 | 272,620 | | |

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

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

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

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

## BUSINESS RISKS

The business of exploration, development, production and acquisition of oil and gas reserves involves a number of uncertainties. As a result, the Company is exposed to certain business risks inherent in the oil and gas industry which may impact the Company's operations or financial results. A discussion of business risks, as well as economic and industry factors affecting the Company is included in Kelt's annual MD&A for the year ended December 31, 2021, dated March 10, 2022.

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

On October 7, 2021 the Government of British Columbia and the Blueberry announced they reached a first step in the initial agreement in developing land management processes on the Blueberry traditional territory. As part of this agreement, a number of forestry and oil and gas projects, which were permitted or authorized prior to the Judgment,

would continue to proceed. The announcement also states that the Province of British Columbia and the Blueberry are working to finalize an interim approach for reviewing new natural resource activities that balance Treaty 8 rights, the economy and the environment. A final agreement between the Government of British Columbia and the Blueberry is still pending.

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

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

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

## 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 2022. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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

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

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "potentially" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements pertaining to the following: Kelt's expected price realizations and future commodity prices; the cost and timing of future capital expenditures and expected results; the Company's ability to continue accumulating land at a low-cost in its core operating areas and potentially monetize non-core assets; the expected timing of well completions, the expected timing of wells being tie-in and 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, the expected timing of obtaining third party processing capacity, and the Company's expected future financial position and operating results. Statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities

predicted or estimated and that the reserves can be profitably produced in the future. Actual reserves may be greater than or less than the estimates provided herein.

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

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

## ADDITIONAL INFORMATION

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

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

| *(CA$ thousands)* | [Notes] | **September 30, 2022** | December 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **21,141** | 719 |
| Accounts receivable and accrued sales | [10] | **50,017** | 42,584 |
| Prepaid expenses and deposits | | **3,192** | 2,080 |
| Derivative financial instruments | [10] | **9,192** | 5,338 |
| **Total current assets** | | **83,542** | 50,721 |
| Derivative financial instruments | [10] | **1,392** | - |
| Deferred income tax asset | | **-** | 10,443 |
| Exploration and evaluation assets | [5] | **26,697** | 29,529 |
| Property, plant and equipment | [6] | **966,988** | 822,804 |
| **Total assets** | | **1,078,619** | 913,497 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **107,887** | 72,453 |
| Derivative financial instruments | [10] | **5,998** | 1,109 |
| Decommissioning obligations | [8] | **1,351** | 2,396 |
| Lease liability | | **565** | 609 |
| **Total current liabilities** | | **115,801** | 76,567 |
| Bank debt | | **-** | 1,150 |
| Decommissioning obligations | [8] | **92,561** | 112,657 |
| Lease liability | | **569** | 399 |
| Deferred income tax liability | | **24,585** | - |
| **Total liabilities** | | **233,516** | 190,773 |
| **SHAREHOLDERS' EQUITY** | | | |
| Shareholders' capital | [9] | **1,162,487** | 1,144,596 |
| Contributed surplus and reserve | | **(17,380)** | (17,348) |
| Deficit | | **(300,004)** | (404,524) |
| **Total shareholders' equity** | | **845,103** | 722,724 |
| **Total liabilities and shareholders' equity** | | **1,078,619** | 913,497 |
| **Commitments** | [13] | | |

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

On behalf of the Board of Directors:

*[signed]* — David J. Wilson, Director

*[signed]* — Neil G. Sinclair, Director

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

| | | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|---|
| *(CA$ thousands, except per share amounts)* | [Notes] | **2022** | 2021 | **2022** | 2021 |
| **Revenue** | | | | | |
| Petroleum and natural gas sales | [11] | **143,254** | 75,761 | **460,638** | 196,240 |
| Royalties | | **(16,697)** | (7,937) | **(49,703)** | (17,513) |
| | | **126,557** | 67,824 | **410,935** | 178,727 |
| **Expenses** | | | | | |
| Production | | **24,955** | 16,682 | **73,450** | 46,367 |
| Transportation | | **7,645** | 6,483 | **22,664** | 17,983 |
| Cost of purchases | | **6,260** | 1,088 | **12,929** | 4,583 |
| Financing | [12] | **926** | 565 | **2,609** | 1,586 |
| General and administrative | | **2,041** | 1,939 | **6,743** | 6,365 |
| Share based compensation | [9] | **2,016** | 1,177 | **5,027** | 3,209 |
| Exploration and evaluation | [5] | **-** | 218 | **46** | 219 |
| Depletion and depreciation | [6] | **28,856** | 22,563 | **88,001** | 64,315 |
| Impairment reversal | [6] | **-** | - | **-** | (70,130) |
| | | **72,699** | 50,715 | **211,469** | 74,497 |
| Loss on derivative instruments | [10] | **(23,506)** | (12,186) | **(60,430)** | (24,438) |
| Foreign exchange gain (loss) | | **633** | 98 | **619** | (70) |
| Gain (loss) on sale of assets | [4] | **-** | 660 | **(196)** | 807 |
| Other income | | **67** | 125 | **90** | 235 |
| **Net income before taxes** | | **31,052** | 5,806 | **139,549** | 80,764 |
| Deferred income tax expense | | **(7,963)** | (2,054) | **(35,029)** | (19,504) |
| **Net income and comprehensive income** | | **23,089** | 3,752 | **104,520** | 61,260 |
| **Net income per common share** | | | | | |
| Basic | | **0.12** | 0.02 | **0.55** | 0.32 |
| Diluted | | **0.12** | 0.02 | **0.54** | 0.32 |

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

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

| *(CA$ thousands)* | [Notes] | Shareholders' capital: Number of Shares (000s) | Shareholders' capital: Amount ($ thousands) | Contributed surplus and reserve | Retained earnings (deficit) | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2021 | | 189,164 | 1,144,596 | (17,348) | (404,524) | 722,724 |
| Net income and comprehensive income | | - | - | - | 104,520 | 104,520 |
| Exercise of stock options | [9] | 2,765 | 17,768 | (4,936) | - | 12,832 |
| Vesting of restricted share units | [9] | 38 | 123 | (123) | - | - |
| Share based compensation | [9] | - | - | 5,027 | - | 5,027 |
| **Balance at September 30, 2022** | | **191,967** | **1,162,487** | **(17,380)** | **(300,004)** | **845,103** |

| *(CA$ thousands)* | [Notes] | Shareholders' capital: Number of Shares (000s) | Shareholders' capital: Amount ($ thousands) | Contributed surplus and reserve | Retained earnings (deficit) | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | | 188,580 | 1,141,517 | (19,053) | (518,780) | 603,684 |
| Net income and comprehensive income | | - | - | - | 61,260 | 61,260 |
| Exercise of stock options | [9] | 225 | 559 | (151) | - | 408 |
| Vesting of restricted share units | [9] | 283 | 2,276 | (2,276) | - | - |
| Share based compensation | [9] | - | - | 3,209 | - | 3,209 |
| **Balance at September 30, 2021** | | **189,088** | **1,144,352** | **(18,271)** | **(457,520)** | **668,561** |

*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] | **2022** | 2021 | **2022** | 2021 |
| **Operating activities** | | | | | |
| Net income and comprehensive income | | **23,089** | 3,752 | **104,520** | 61,260 |
| Items not affecting cash: | | | | | |
| Accretion | [12] | **661** | 534 | **1,730** | 1,442 |
| Share based compensation | | **2,016** | 1,177 | **5,027** | 3,209 |
| Exploration and evaluation | | **-** | 218 | **46** | 219 |
| Depletion and depreciation | | **28,856** | 22,563 | **88,001** | 64,315 |
| Impairment reversal | | **-** | - | **-** | (70,130) |
| Unrealized (gain) loss on derivative financial instruments | [10] | **2,686** | 6,698 | **(358)** | 14,237 |
| (Gain) loss on sale of assets | [4] | **-** | (660) | **196** | (807) |
| Deferred income tax expense | | **7,963** | 2,054 | **35,029** | 19,504 |
| Other | | **(82)** | - | **(50)** | (10) |
| Settlement of decommissioning obligations | [8] | **(587)** | (201) | **(2,833)** | (2,542) |
| Change in non-cash operating working capital | [14] | **20,502** | 10,412 | **10,972** | 16,961 |
| **Cash provided by operating activities** | | **85,104** | 46,547 | **242,280** | 107,658 |
| **Financing activities** | | | | | |
| Decrease in bank debt | | **-** | - | **(1,150)** | - |
| Proceeds on exercise of stock options | [9] | **1,264** | 348 | **12,832** | 408 |
| Repayment of lease liability principal | | **(187)** | (191) | **(561)** | (551) |
| **Cash provided by (used in) financing activities** | | **1,077** | 157 | **11,121** | (143) |
| **Investing activities** | | | | | |
| Exploration and evaluation assets | [5] | **(420)** | (641) | **(1,283)** | (3,563) |
| Property, plant and equipment | [6] | **(74,842)** | (79,410) | **(246,783)** | (151,719) |
| Property acquisitions | | **(919)** | - | **(921)** | (16) |
| Property dispositions | | **-** | 8,889 | **41** | 8,905 |
| Change in non-cash investing working capital | [14] | **1,850** | 13,899 | **15,917** | 29,274 |
| **Cash used in investing activities** | | **(74,331)** | (57,263) | **(233,029)** | (117,119) |
| Impact of foreign currency on cash balances | | **82** | - | **50** | 10 |
| **Net change in cash and cash equivalents** | | **11,932** | (10,559) | **20,422** | (9,594) |
| **Cash and cash equivalents, beginning of period** | | **9,209** | 32,535 | **719** | 31,570 |
| **Cash and cash equivalents, end of period** | | **21,141** | 21,976 | **21,141** | 21,976 |

*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. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on November 9, 2022 for issue on November 10, 2022.

### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements as at and for the year ended December 31, 2021.

### b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 10 of these financial statements.

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

### c) Significant Judgements and Estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2021 consolidated annual financial statements.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2021 consolidated annual financial statements. These condensed consolidated interim financial statements as at September 30, 2022 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements as at and for the year ended December 31, 2021.

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

## 4. 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, 2022 and the year ended December 31, 2021.

| **Acquisitions** | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Exploration and evaluation assets | **2,479** | 242 |
| Property, plant and equipment | **1,427** | 96 |
| Decommissioning obligations | **(506)** | (86) |
| Net assets acquired | **3,400** | 252 |
| **Consideration** | | |
| Cash consideration | **(921)** | (52) |
| Non-cash consideration | **(2,479)** | (200) |
| Total consideration | **(3,400)** | (252) |

| **Dispositions** | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Exploration and evaluation assets | **(2,513)** | (1,427) |
| Property, plant and equipment | **(276)** | (10,808) |
| Decommissioning obligations | **73** | 3,981 |
| Carrying value of net assets disposed | **(2,716)** | (8,254) |
| **Consideration** | | |
| Cash consideration, after closing adjustments | **41** | 8,848 |
| Non-cash consideration | **2,479** | 200 |
| Total consideration | **2,520** | 9,048 |
| Gain (loss) on sale of assets | **(196)** | 794 |

In the nine months ended September 30, 2022, the Company closed a non-cash swap transaction for exploration and evaluation assets with a cost basis of $2.5 million and disposed and acquired some additional non-core assets.

## 5. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

| | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **29,529** | 53,449 |
| Additions | **1,283** | 4,202 |
| Property acquisitions | **2,479** | 242 |
| Property dispositions | **(2,513)** | (1,427) |
| Transfers to property, plant and equipment | **(4,035)** | (26,009) |
| Expired mineral leases | **(46)** | (928) |
| Balance, end of period | **26,697** | 29,529 |

## 6. PROPERTY, PLANT AND EQUIPMENT

| Net carrying value | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Development and production ("D&P") assets | **965,005** | 821,017 |
| Right-of-use ("ROU") assets | **1,249** | 1,009 |
| Corporate assets | **734** | 778 |
| Total net carrying value of property, plant and equipment | **966,988** | 822,804 |

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

| Property, plant and equipment, at cost | D&P Assets | Corporate Assets | ROU Assets | Total PP&E |
|---|---|---|---|---|
| Balance at December 31, 2020 | 1,251,898 | 5,238 | 2,503 | 1,259,639 |
| Additions | 217,018 | 1,087 | 289 | 218,394 |
| Property acquisitions | 96 | - | - | 96 |
| Property dispositions | (21,692) | - | - | (21,692) |
| Provision | (1,000) | - | - | (1,000) |
| Change in decommissioning obligations | 3,468 | - | - | 3,468 |
| Transfers from E&E | 26,009 | - | - | 26,009 |
| Balance at December 31, 2021 | **1,475,797** | **6,325** | **2,792** | **1,484,914** |
| Additions | **246,055** | **728** | **687** | **247,470** |
| Property acquisitions | **1,427** | **-** | **-** | **1,427** |
| Property dispositions | **(276)** | **-** | **-** | **(276)** |
| Change in decommissioning obligations | **(20,471)** | **-** | **-** | **(20,471)** |
| Transfers from E&E | **4,035** | **-** | **-** | **4,035** |
| **Balance at September 30, 2022** | **1,706,567** | **7,053** | **3,479** | **1,717,099** |

| Accumulated depletion, depreciation and impairment | D&P Assets | Corporate Assets | ROU Assets | Total PP&E |
|---|---|---|---|---|
| Balance at December 31, 2020 | 645,566 | 5,047 | 1,260 | 651,873 |
| Depletion and depreciation expense | 90,228 | 500 | 523 | 91,251 |
| Impairment reversal | (70,130) | - | - | (70,130) |
| Dispositions | (10,884) | - | - | (10,884) |
| Balance at December 31, 2021 | **654,780** | **5,547** | **1,783** | **662,110** |
| Depletion and depreciation expense | **86,782** | **772** | **447** | **88,001** |
| **Balance at September 30, 2022** | **741,562** | **6,319** | **2,230** | **750,111** |

Future capital costs required to develop proved reserves in the amount of $718.1 million (December 31, 2021 – $754.6

million) are included in the depletion calculation for development and production assets.

As at September 30, 2022, the Company concluded that there were no indicators of impairment therefore an impairment test was not conducted.

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

## 7. BANK DEBT

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

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

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

## 8. DECOMMISSIONING OBLIGATIONS

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

| | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **115,053** | 117,060 |
| Obligations incurred | **2,548** | 2,395 |
| Obligations acquired | **506** | 86 |
| Obligations disposed | **(73)** | (3,981) |
| Obligations settled | **(2,833)** | (3,583) |
| Changes in discount rate | **(38,103)** | (26,279) |
| Changes in inflation rate | **8,724** | 16,569 |
| Revisions to estimates | **6,360** | 10,783 |
| Accretion expense | **1,730** | 2,003 |
| Balance, end of period | **93,912** | 115,053 |
| | | |
| Decommissioning obligations – current | **1,351** | 2,396 |
| Decommissioning obligations – non-current | **92,561** | 112,657 |

| | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| **Key assumptions** | | |
| Risk free rate | **3.1%** | 1.7% |
| Inflation rate | **2.0%** | 1.7% |

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at September 30, 2022 the undiscounted amount of the estimated cash flows required to settle the obligation is $126.0 million (December 31, 2021 – $115.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 2%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $239.6 million at September 30, 2022 (December 31, 2021 – $191.6 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

## 9. SHARE CAPITAL

### Authorized

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

### Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of September 30, 2022 (December 31, 2021 – nil).

| | Number of Shares (000s) | Amount ($ thousands) |
|---|---|---|
| Balance at December 31, 2020 | 188,580 | 1,141,517 |
| Issued on exercise of stock options | 291 | 568 |
| Transfer from contributed surplus on exercise of stock options | - | 200 |
| Released upon vesting of restricted share units | 293 | 2,311 |
| Balance at December 31, 2021 | **189,164** | **1,144,596** |
| Issued on exercise of stock options | **2,765** | **12,832** |
| Transfer from contributed surplus on exercise of stock options | **-** | **4,936** |
| Released upon vesting of restricted share units | **38** | **123** |
| **Balance at September 30, 2022** | **191,967** | **1,162,487** |

### Stock options

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

The following table summarizes the change in stock options outstanding:

| | Number of Options (000s) | Average Exercise Price ($/share) |
|---|---|---|
| Balance at December 31, 2020 | 9,967 | 3.88 |
| Granted | 2,642 | 2.79 |
| Exercised [1] | (291) | 1.95 |
| Forfeited | (137) | 4.66 |
| Expired | (1,658) | 4.72 |
| Balance at December 31, 2021 | **10,523** | **3.52** |
| Granted | **3,508** | **5.40** |
| Exercised [1] | **(2,765)** | **4.64** |
| Forfeited | **(273)** | **4.07** |
| Expired | **(232)** | **6.55** |
| **Balance at September 30, 2022** | **10,761** | **3.77** |

(1) The weighted average share price on the date stock options were exercised during the period ended September 30, 2022 was $6.96 per common share ($3.87 per common share on average during the year ended December 31, 2021).

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

| | Nine months ended September 30 | |
|---|---|---|
| | **2022** | 2021 |
| Risk free interest rate | **1.99%** | 0.60% |
| Expected life (years) | **3.5** | 3.6 |
| Expected volatility [1] | **76.1%** | 79.5% |
| Expected dividend yield | **0.0%** | 0.0% |
| Expected forfeiture rate | **4.8%** | 5.2% |
| Fair value of options granted during the year ($/share) | **2.87** | 1.49 |

(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, 2022:

| Range of exercise prices per common share | Number of options outstanding (000s) | Weighted average remaining term (years) | Weighted average exercise price for options outstanding ($/share) | Number of options exercisable (000s) | Weighted average exercise price for options exercisable ($/share) |
|---|---|---|---|---|---|
| $0.00 to $3.50 | 5,398 | 2.8 | 2.14 | 3,049 | 2.11 |
| $3.51 to $6.50 | 4,803 | 3.5 | 5.16 | 1,420 | 4.77 |
| $6.51 to $9.50 | 560 | 1.2 | 7.47 | 459 | 7.63 |
| **Total** | **10,761** | **3.0** | **3.77** | **4,928** | **3.39** |

**Restricted share units**

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

The following table summarizes the change in RSUs outstanding:

| | Number of RSUs (000s) |
|---|---|
| Balance at December 31, 2020 | 346 |
| Granted | 709 |
| Released upon vesting | (293) |
| Forfeited | (3) |
| Balance at December 31, 2021 | **759** |
| Granted | **194** |
| Released upon vesting | **(38)** |
| Forfeited | **(32)** |
| **Balance at September 30, 2022** | **883** |

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 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Stock options | **1,711** | 854 | **4,223** | 2,261 |
| Restricted share units | **305** | 323 | **804** | 948 |
| Total share based compensation expense | **2,016** | 1,177 | **5,027** | 3,209 |

**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 per common share:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| *(000s of common shares)* | **2022** | 2021 | **2022** | 2021 |
| Weighted average common shares outstanding, basic | **191,812** | 188,842 | **190,799** | 188,688 |
| Effect of stock options and RSUs | **4,306** | 2,250 | **4,360** | 1,611 |
| Weighted average common shares outstanding, diluted | **196,118** | 191,092 | **195,159** | 190,299 |

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted net income per common share. For the quarter ended September 30, 2022, the stock options and RSUs impact in calculating the diluted net income was negligible.

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The objective of the Company’s risk management is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. All such transactions are conducted in accordance with the Company’s

established risk management policies that permit management to enter into commodity price agreements, provided that:

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

**Commodity price risk**

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

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

**Natural gas derivative contracts**

| Contract Type [2] | Notional Volume | Contract Price $/MMBtu | Remaining Term |
|---|---|---|---|
| NYMEX fixed price swap | 45,000 MMBtu/d | CAD$5.58 | Oct 22 |
| NYMEX fixed price swap | 20,000 MMBtu/d | CAD$10.12 | Nov 22 – Feb 23 |
| NYMEX fixed price swap | 10,000 MMBtu/d | CAD$10.15 | Mar 23 |
| NYMEX-AECO basis swap | 10,000 MMBtu/d | NYMEX less USD$1.42 | Nov 22 – Mar 23 |
| NYMEX-AECO basis swap | 10,000 MMBtu/d | Monthly AECO basis calculated at 30% of the floating monthly NYMEX price | Apr 23 – Oct 24 |
| NYMEX-AECO basis swap | 30,000 MMBtu/d | NYMEX less USD$1.10 | Nov 24 – Oct 25 |

| Costless Collars [2] | Notional Volume | Floor Price $/MMBtu | Ceiling Price $/MMBTU | Remaining Term |
|---|---|---|---|---|
| NYMEX costless collar | 10,000 MMBtu/d | CAD$9.00 | CAD$16.40 | Nov 22 – Mar 23 |
| NYMEX costless collar | 10,000 MMBtu/d | CAD$9.00 | CAD$18.15 | Nov 22 – Mar 23 |
| NYMEX costless collar | 10,000 MMBtu/d | CAD$9.50 | CAD$17.00 | Nov 22 – Mar 23 |

**Crude oil derivative contracts**

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

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

Subsequent to September 30, 2022, the Company entered into the following commodity price risk management contracts:

**Crude oil derivative contracts**

| Costless Collars [1] | Notional Volume | Floor Price $/bbl | Ceiling Price $/bbl | Remaining Term |
|---|---|---|---|---|
| WTI costless collar | 1,000 bbl/d | CAD$100 | CAD$130 | Jan 23 – Mar 23 |
| WTI costless collar | 1,000 bbl/d | CAD$102 | CAD$128 | Jan 23 – Mar 23 |

(1) West Texas Intermediate ("WTI")

**Interest rate risk**

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

**Foreign exchange risk**

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

As at September 30, 2022, the following foreign exchange risk management contracts are outstanding:

| Contract Type | Notional Volume | Contract Price | Remaining Term |
|---|---|---|---|
| CAD/USD swap | USD$3,000,000/month | $1.3625 CAD/USD | Jan 23 – Dec 23 |

**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 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Realized loss | **(20,820)** | (5,488) | **(60,788)** | (10,201) |
| Unrealized gain (loss) | **(2,686)** | (6,698) | **358** | (14,237) |
| Loss on derivative financial instruments | **(23,506)** | (12,186) | **(60,430)** | (24,438) |

**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, 2022, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

| Accounts receivable and accrued sales | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Joint venture partners | **10,443** | 2,789 |
| Oil and gas marketers | **33,380** | 38,534 |
| GST input tax credits | **1,960** | 1,740 |
| Other | **5,285** | 138 |
| Expected credit loss provision | **(1,051)** | (617) |
| Accounts receivable and accrued sales | **50,017** | 42,584 |

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

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

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

**Liquidity Risk**

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

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

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

| | Within 1 Year | 1 to 5 Years | More than 5 Years | **Total** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 107,887 | - | - | **107,887** |
| Derivative financial instruments | 5,998 | - | - | **5,998** |
| Lease liability | 565 | 569 | - | **1,134** |
| **Total** | **114,450** | **569** | **-** | **115,019** |

**Capital Management**

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

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

*Adjusted funds from operations and annualized quarterly adjusted funds from operations*

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

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

| | **Three months ended September 30, 2022** | Three months ended December 31, 2021 |
|---|---|---|
| **Cash provided by operating activities** | **85,104** | 52,056 |
| Change in non-cash working capital | **(20,502)** | 15,058 |
| Settlement of decommissioning obligations | **587** | 1,041 |
| **Adjusted funds from operations** | **65,189** | 68,155 |
| **Annualized quarterly adjusted funds from operations** | **260,756** | 272,620 |

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

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

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

| | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Bank debt | **-** | 1,150 |
| Accounts payable and accrued liabilities | **107,887** | 72,453 |
| Cash and cash equivalents | **(21,141)** | (719) |
| Accounts receivable and accrued sales | **(50,017)** | (42,584) |
| Prepaid expenses and deposits | **(3,192)** | (2,080) |
| Net debt (surplus) | **33,537** | 28,220 |
| Annualized quarterly adjusted funds from operations | **260,756** | 272,620 |
| Net debt (surplus) to annualized quarterly adjusted funds from operations ratio | **0.1** | 0.1 |

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

## 11. PETROLEUM AND NATURAL GAS SALES

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

recorded once the product is delivered to a contractually agreed upon delivery point.

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

Where Kelt is the principal to transportation arrangements, gas production sales includes variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the nine months ended September 30, 2022, transportation costs incurred in relation to these contracts was $8.9 million (September 30, 2021 – $7.3 million).

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Oil production | **55,100** | 33,798 | **176,848** | 82,887 |
| Oil treating and other | **180** | 110 | **495** | 422 |
| NGLs production | **22,852** | 11,732 | **80,598** | 31,100 |
| Gas production | **58,250** | 28,750 | **188,544** | 76,297 |
| Gas processing and other | **522** | 216 | **1,021** | 742 |
| Marketing revenue [(1)] | **6,350** | 1,155 | **13,132** | 4,792 |
| Total petroleum and natural gas sales | **143,254** | 75,761 | **460,638** | 196,240 |

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

Included in accounts receivable at September 30, 2022 is $33.4 million (December 31, 2021 – $38.5 million) of accrued oil and gas sales related to September 2022 production.

## 12. FINANCING EXPENSES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| Total interest expense | **265** | 31 | **879** | 144 |
| Accretion of decommissioning obligations | **661** | 534 | **1,730** | 1,442 |
| Total financing expense | **926** | 565 | **2,609** | 1,586 |

## 13. COMMITMENTS

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

| | 2022 | 2023 | 2024 | 2025 | 2026 | Thereafter |
|---|---|---|---|---|---|---|
| Firm processing commitments | 4,087 | 17,390 | 26,546 | 37,281 | 36,982 | 290,579 |
| Firm transportation commitment | 6,865 | 28,769 | 27,288 | 25,034 | 23,615 | 50,780 |
| **Total annual commitments** | **10,952** | **46,159** | **53,834** | **62,315** | **60,597** | **341,359** |

In 2022 Kelt entered into two gas processing agreements with third party midstream companies. The gas processing plants are expected to become operational in the in the fourth quarter of 2023 and in the fourth quarter of 2024, with a total expected increase of approximately $300 million to Kelt's future payments under these agreements.

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| **Changes in non-cash working capital** | **2022** | 2021 | **2022** | 2021 |
| Accounts receivable and accrued sales | **18,971** | (741) | **(7,433)** | (2,770) |
| Prepaid expenses and deposits | **779** | 5,470 | **(1,112)** | 10,035 |
| Accounts payable and accrued liabilities | **2,602** | 19,582 | **35,434** | 38,970 |
| Change in non-cash working capital | **22,352** | 24,311 | **26,889** | 46,235 |
| Relating to: | | | | |
| Operating activities | **20,502** | 10,412 | **10,972** | 16,961 |
| Investing activities | **1,850** | 13,899 | **15,917** | 29,274 |
| Change in non-cash working capital | **22,352** | 24,311 | **26,889** | 46,235 |

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** | **2022** | 2021 | **2022** | 2021 |
| Interest and standby fees on bank debt | **202** | 27 | **774** | 84 |
| Taxes [(1)] | **-** | - | **-** | - |

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

**ABBREVIATIONS**

| | |
|---|---|
| A&D | Acquisitions and dispositions |
| AECO | Alberta Energy Company “C” Meter Station of the NOVA Pipeline System |
| API | American Petroleum Institute |
| AT | After income taxes |
| bbls | barrels |
| bbls/d | barrels per day |
| bcf | billion cubic feet |
| BOE | barrels of oil equivalent |
| BOE/d | barrels of oil equivalent per day |
| BT | Before income taxes |
| Dawn | Gas traded at Union Gas' Dawn Hub in Dawn Township, Ontario |
| GJ | gigajoules |
| Mbbls | thousand barrels |
| MBOE | thousand barrels of oil equivalent |
| Mcf | thousand cubic feet |
| MD&A | Management’s Discussion and Analysis |
| MMBtu | million British Thermal Units |
| MMcf | million cubic feet |
| MMcf/d | million cubic feet per day |
| MSW | Mountain sweet blend crude oil |
| NGX | Natural Gas Exchange Inc. (Canada) |
| NGTL | Nova Gas Transmission Line |
| NIT | NOVA Inventory Transfer (“AB-NIT”), being the reference price at the AECO Hub |
| NYMEX | New York Mercantile Exchange |
| Q1 | First quarter ended March 31st |
| Q2 | Second quarter ended June 30th |
| Q3 | Third quarter ended September 30th |
| Q4 | Fourth quarter ended December 31st |
| Station 2 | Spectra Energy receipt location |
| TWM | Tidewater Midstream Ltd. |
| WTI | West Texas Intermediate |
| YTD | Year to date |
| 1P | Proved reserves |
| 2P | Proved plus probable reserves |

**CONVERSION OF UNITS**

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 Mcf = 28.2 cubic metres

0.035 Mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

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

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

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

**William C. Guinan** [1, 5]
Independent

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

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

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

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

1 board chair

2 member, audit committee

3 member, reserves committee

4 member, compensation committee

5 member, health, safety and environment committee

6 member of the nominating committee

7 lead director

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### OFFICERS

**David J. Wilson**
President & Chief Executive Officer

**Sadiq H. Lalani**
Vice President & Chief Financial Officer

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

**Alan G. Franks**
Vice President, Production

**Bruce D. Gigg**
Vice President, Engineering

**David A. Gillis**
Vice President, Finance

**Douglas O. MacArthur**
Vice President, Operations

**Patrick W.G. Miles**
Vice President, Exploration

**Carol Van Brunschot**
Vice President, Marketing

**Louise K. Lee**
Corporate Secretary

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