kelt exploration

ANNUAL REPORT

AS AT AND FOR THE YEAR ENDED

DECEMBER 31, 2019

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FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
FINANCIAL						
Petroleum and natural gas sales	**97,763**	100,350	-3	**394,356**	389,277	1
Cash provided by operating activities	**35,396**	63,656	-44	**162,488**	186,383	-13
Adjusted funds from operations (1)	**46,655**	47,140	-1	**182,521**	186,839	-2
Basic ($/ common share) (1)	**0.25**	0.26	-4	**0.99**	1.02	-3
Diluted ($/ common share) (1)	**0.25**	0.26	-4	**0.99**	1.01	-2
Profit (loss) and comprehensive income (loss)	**(2,628)**	2,843	-192	**6,572**	8,154	-19
Basic ($/ common share)	**(0.01)**	0.02	-150	**0.04**	0.04	-
Diluted ($/ common share)	**(0.01)**	0.02	-150	**0.04**	0.04	-
Total capital expenditures, net of dispositions	**63,983**	70,332	-9	**315,624**	285,498	11
Total assets	**1,605,465**	1,423,521	13	**1,605,465**	1,423,521	13
Net bank debt (1)	**328,080**	196,416	67	**328,080**	196,416	67
Convertible debentures	**82,789**	78,390	6	**82,789**	78,390	6
Shareholders' equity	**923,062**	893,796	3	**923,062**	893,796	3
Weighted average shares outstanding (000s)						
Basic	**184,763**	183,994	-	**184,302**	182,576	1
Diluted	**185,108**	184,682	-	**184,946**	184,393	-
OPERATIONS						
Average daily production						
Oil (bbls/d)	**9,900**	9,301	6	**9,361**	8,403	11
NGLs (bbls/d)	**4,888**	3,783	29	**4,490**	3,186	41
Gas (mcf/d)	**98,844**	93,759	5	**96,658**	92,502	4
Combined (BOE/d)	**31,262**	28,711	9	**29,961**	27,006	11
Production per million common shares (BOE/d) (1)	**169**	156	8	**163**	148	10
Average realized prices, before financial instruments (1)						
Oil ($/bbl)	**63.25**	38.77	63	**66.94**	65.82	2
NGLs ($/bbl)	**21.01**	27.75	-24	**20.62**	33.81	-39
Gas ($/mcf)	**2.95**	6.37	-54	**3.26**	3.76	-13
Operating netbacks ($/BOE) (1)						
Petroleum and natural gas sales	**33.99**	37.99	-11	**36.06**	39.49	-9
Cost of purchases	**(1.35)**	(1.05)	29	**(1.53)**	(2.19)	-30
Average realized price, before financial instruments (1)	**32.64**	36.94	-12	**34.53**	37.30	-7
Realized loss on financial instruments	**(0.11)**	(2.23)	-95	**(0.08)**	(0.60)	-87
Average realized price, after financial instruments (1)	**32.53**	34.71	-6	**34.45**	36.70	-6
Royalties	**(1.25)**	(2.10)	-40	**(1.76)**	(3.11)	-43
Production expense	**(9.09)**	(8.58)	6	**(9.18)**	(9.11)	1
Transportation expense	**(3.54)**	(4.64)	-24	**(4.62)**	(3.92)	18
Operating netback (1)	**18.65**	19.39	-4	**18.89**	20.56	-8
Total Landholdings						
Gross acres	**1,053,445**	1,075,090	-2	**1,053,445**	1,075,090	-2
Net acres	**819,557**	838,990	-2	**819,557**	838,990	-2
Reserves – proved plus probable						
Crude oil and liquids (mbbls) (2)	**216,324**	128,847	68	**216,324**	128,847	68
Gas (mmcf)	**1,467,941**	1,042,987	41	**1,467,941**	1,042,987	41
Combined (mBOE)	**460,981**	302,678	52	**460,981**	302,678	52

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

(2) "Liquids" include field condensate and NGLs.

MESSAGE TO SHAREHOLDERS

Kelt Exploration Ltd. ("Kelt" or the "Company") reports its financial and operating results to shareholders for the fourth quarter and year ended December 31, 2019

The energy sector is currently experiencing high volatility with fluctuating crude oil prices driven by fears of a retraction in global economic growth. In addition, natural gas prices in most major U.S. gas hubs are trading at low levels coming out of a warmer than average winter in North America. Kelt has taken measures to mitigate near term commodity price volatility by entering into fixed price swap contracts for the first half of 2020 on crude oil and for the summer of 2020 on natural gas.

Average production for the three months ended December 31, 2019 was 31,262 BOE per day, up 9% compared to average production of 28,711 BOE per day during the fourth quarter of 2018. Daily average production in the fourth quarter of 2019 was marginally higher than average production of 31,150 BOE per day in the third quarter of 2019. Kelt achieved a record high calendar year average production in 2019 of 29,961 BOE per day, up 11% from average production of 27,006 BOE per day in 2018. Production for 2019 was weighted 46% to oil and NGLs and 54% to gas.

Kelt's realized average oil price during the fourth quarter of 2019 was $63.25 per barrel, up 63% from $38.77 per barrel in the fourth quarter of 2018 and down 3% from $65.41 per barrel in the third quarter of 2019. The Company's realized average NGLs price during the fourth quarter of 2019 was $21.01 per barrel, down 24% from $27.75 per barrel in the fourth quarter of 2018 and up 26% from $16.64 per barrel in the third quarter of 2019. Kelt's realized average gas price for the fourth quarter of 2019 was $2.95 per MCF, down 54% from $6.37 per MCF in the fourth quarter of 2018 and up 27% from the realized average gas price of $2.32 per MCF in the third quarter of 2019.

For the three months ended December 31, 2019, revenue was $97.8 million and adjusted funds from operations was $46.7 million ($0.25 per share, diluted), compared to $100.3 million and $47.1 million ($0.26 per share, diluted) respectively, in the fourth quarter of 2018. At December 31, 2019, bank debt, net of working capital ("net bank debt") was $328.1 million, up 67% from $196.4 million at December 31, 2018. The ratio of net bank debt to annualized quarterly adjusted funds from operations for the year was 1.8 times at December 31, 2019.

Net capital expenditures incurred during the three months ended December 31, 2019 were $64.0 million and for the year ended December 31, 2019, net capital expenditures were $315.6 million. During 2019, the Company spent $184.7 million on drill and complete operations, $129.0 million on equipment, facilities and pipelines and $3.6 million on land and seismic. During the year, Kelt realized proceeds of $8.9 million from asset dispositions and incurred $7.2 million on asset acquisitions.

As at December 31, 2019, Kelt's net working interest land holdings were 819,557 acres (1,280 sections). Kelt is focused on long-term value creation by accumulating significant land acreage on resource style plays, with a primary focus on Triassic Montney oil and liquids-rich gas plays. At December 31, 2019, Kelt's net Montney land holdings were 517,208 acres (808 sections).

At Inga/Fireweed, Kelt continued operations on its first 24-well Montney cube pad. All 24 wells were drilled by the end of 2019 and the Company moved forward the completion of three of the wells from the third group of six wells to the fourth quarter of 2019, leaving six wells from the fourth group to be completed in the first quarter of 2020. During the fourth quarter of 2019, the Company commenced the installation of a 40-kilometre, 16-inch pipeline that will be capable of transporting 300 MMcf per day of natural gas from its Inga 2-10 facility to the newly constructed AltaGas Townsend Deep-Cut Gas Plant, expected to be on-stream in April 2020. Kelt will benefit from higher liquids recoveries, increased netbacks for its propane barrels based on current far-east Asia prices and lower processing fees for its Inga/Fireweed gas that will be diverted to the AltaGas Townsend Deep-Cut Gas Plant.

At Oak/Flatrock, Kelt began the drilling of a nine well development program in late December 2019 that is expected to be finished during the first half of 2020. Capital expenditures relating to completion operations for these wells, pipeline tie-ins and battery ("Oak facility") construction are all planned for the second half of 2020. Ten wells (three previously drilled and completed and seven new wells from the 2020 program) are expected to be tied into the Oak facility in 2020 and an additional two wells are slated to be connected during 2021. The Company's single well tested in the Middle Montney formation at Oak appears to have lower condensate to gas ratios than the Upper Montney which has ratios ranging from 100 to 150 barrels per MMcf of raw gas. All nine wells planned in the 2020 development program at Oak will be targeting the Upper Montney formation.

At Wembley/Pipestone, Kelt installed compression at its newly constructed battery and facility located at 01-14-072-08W6. Although this project was originally planned for 2020, it was brought forward to 2019 as it allows the Company to produce into a higher than anticipated linepack delivering gas and condensate to the Tidewater Pipestone Sour Deep-Cut Gas Processing Plant (the "Pipestone Plant"). Although run times at the Pipestone Plant have not met Kelt's expectations, the operator of the plant continues to troubleshoot items which should lead to more consistent run times in the future. Kelt wells in the Wembley/Pipestone area have been performing well with oil/condensate to gas ratios during the fourth quarter of 2019 averaging approximately 170 barrels per MMcf of raw gas.

Kelt's current commodity price forecast for 2020 assumes that WTI crude oil prices will average US$52.00 per barrel and NYMEX Henry Hub natural gas prices will average US$2.25 per MMBtu. With the recent volatility in both oil and gas prices, the Company expects to provide an updated 2020 commodity price forecast to shareholders early in May when Kelt reports its 2020 first quarter results.

The Company will re-evaluate its spending plans for the remainder of 2020 after the first quarter is complete. Kelt is currently planning to defer certain capital expenditures that were previously expected to be incurred in the second quarter of 2020 to the second half of 2020. The Company's forecasted capital expenditures for 2020 is $225.0 million which is in line with forecasted adjusted funds from operations of $225.0 million. Kelt will continue to monitor oil and gas prices and if necessary, will adjust its capital expenditures downwards if commodity prices continue to drift lower during 2020.

Kelt expects to report to shareholders its 2020 first quarter results on or about May 7, 2020.

On behalf of the Board of Directors,

[signed]

David J. Wilson
President and Chief Executive Officer
March 9, 2020

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

This Management's Discussion and Analysis ("MD&A") is dated March 9, 2020 and should be read in conjunction with the Company's audited consolidated annual financial statements and related notes as at and for the year ended December 31, 2019. The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"). The CPA Handbook incorporates International Financial Reporting Standards ("IFRS") and publicly accountable enterprises, including Kelt, are required to apply such standards. The Company's Board of Directors approved and authorized the consolidated annual financial statements for issue on March 9, 2020.

GENERAL ADVISORY

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

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

BASIS OF PRESENTATION

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

include crude oil and field condensate. References to "natural gas liquids" or "NGLs" include pentane, butane, propane, and ethane. References to "liquids" include field condensate and NGLs. References to "gas" include natural gas and sulphur.

FINANCIAL AND OPERATING SUMMARY

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**97,763**	100,350	-3	**394,356**	389,277	1
Cash provided by operating activities	**35,396**	63,656	-44	**162,488**	186,383	-13
Adjusted funds from operations (1)	**46,655**	47,140	-1	**182,521**	186,839	-2
Diluted ($/ common share) (1)	**0.25**	0.26	-4	**0.99**	1.01	-2
Profit (loss) and comprehensive income (loss)	**(2,628)**	2,843	-192	**6,572**	8,154	-19
Diluted ($/ common share)	**(0.01)**	0.02	-150	**0.04**	0.04	-
Total capital expenditures, net of dispositions	**63,983**	70,332	-9	**315,624**	285,498	11
Net bank debt (1)	**328,080**	196,416	67	**328,080**	196,416	67
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**31,262**	28,711	9	**29,961**	27,006	11
Average realized price, before financial instruments (1)	**32.64**	36.94	-12	**34.53**	37.30	-7
Average realized price, after financial instruments (1)	**32.53**	34.71	-6	**34.45**	36.70	-6
Operating netback (1)	**18.65**	19.39	-4	**18.89**	20.56	-8
Reserves – proved plus probable (mboe)	**460,981**	302,678	52	**460,981**	302,678	52

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

In 2019, Kelt delivered strong financial and operating results as highlighted by the following:

- Achieved record high average production during the fourth quarter and year ended December 31, 2019;
    - Fourth quarter production averaged 31,262 BOE per day (47% oil/NGLs) up 9% from 28,711 BOE per day (46% oil and NGLs) in the fourth quarter of 2018.
    - Average production for the year ended December 31, 2019 was 29,961 BOE per day (46% oil/NGLs), up 11% from average production of 27,006 BOE per day (43% oil/NGLs) in 2018. Production per million shares was 163 BOE per day, up from 148 BOE per day in 2018.
- Annual adjusted funds from operations decreased by 2% to $182.5 million ($0.99 per share, diluted). Adjusted funds from operations of $46.7 million ($0.25 per share, diluted) during the fourth quarter of 2019 decreased 1% from $47.1 million ($0.26 per share, diluted) in the fourth quarter of 2018. For the year ended December 31, 2019 Kelt's average sales price per BOE decreased by 7%.
- Capital expenditures totaled $315.6 million focusing on the development of the Company's Inga/Fireweed, and Wembley assets. Drilling and completion expenditures of $184.7 included the drilling of 33.0 net wells and the completion of 36.0 net wells. Facility expenditures included $128.3 million, primarily related to the Company's 100 MMcf/d gas processing facility at Inga (the "Inga 2-10 Facility"), its 30 MMcf/d gas processing facility at Wembley (the "Wembley 1-14 Facility"), and the installation of major pipelines at both Inga/Fireweed and Wembley. The facility expenditures incurred in 2019 provide Kelt with significant growth capacity for the Company's planned development at both Inga and Wembley.
- Net bank debt was $328.1 million at December 31, 2019 (1.8 times trailing adjusted funds from operations) compared to a senior credit facility of $350.0 million.

- A third party processing facility at Wembley/Pipestone commenced operations towards the end of the third quarter of 2019 where Kelt has firm processing of 30.0 MMcf/d of raw gas under a 10 year take or pay arrangement. Despite initial start-up issues, plant operations continue to improve, with volumes flowing intermittently in the fourth quarter of 2019.
- During the fourth quarter, Kelt received the first installment of $0.9 million in royalty credits (under a total program approval of $15.0 million royalty credits) under the British Columbia Infrastructure Royalty Credit Program. Kelt also obtained approval in the fourth quarter of 2019 for $18.5 million in additional royalty credits relating to infrastructure expenditures expected to be incurred at its Oak/Flatrock property.
- The Company reported significant growth in reserves as at December 31, 2019:
  - Proved developed producing reserves increased 20% to 48.9 million BOE (44% oil and NGLs);
  - Total proved reserves increased 42% to 224.6 million BOE (46% oil and NGLs); and
  - Total proved plus probable reserves increased 52% to 461.0 million BOE (47% oil and NGLs).

PRODUCTION

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Average daily production:						
Oil (bbls/d)	**9,900**	9,301	6	**9,361**	8,403	11
NGLs (bbls/d)	**4,888**	3,783	29	**4,490**	3,186	41
Gas (mcf/d)	**98,844**	93,759	5	**96,658**	92,502	4
Combined (BOE/d)	**31,262**	28,711	9	**29,961**	27,006	11
Oil and NGLs weighting	**47%**	46%		**46%**	43%	

Average production for the three months and year ended December 31, 2019 increased 9% and 11%, respectively, over the comparative periods in 2018. Production additions in 2019 were concentrated at the Company's Inga/Fireweed asset where the Company drilled and completed 18 wells on its 24-well pad, and at Wembley/Pipestone; however third party plant start-up issues restricted production at Wembley to approximately 50% of productive capability in the fourth quarter of 2019.

Oil and NGLs weighting of total production increased in 2019 to 47% during the fourth quarter and 46% for the year, versus the 46% and 43% in the comparable periods in 2018. Average oil production during the fourth quarter of 2019 increased by 6% to 9,900 BOE per day compared to average oil production of 9,301 BOE per day in the fourth quarter of 2018. Average oil production during the year ended 2019 increased by 11% compared to average oil production of 8,403 BOE per day for the year ended 2018.

REVENUE

All references to revenue in this discussion are before royalties.

(CA$ thousands, except as otherwise indicated)	Three months ended December 31 **2019**	2018	%	Year ended December 31 **2019**	2018	%
Revenue, before royalties and financial instruments:						
Oil	**57,503**	32,893	75	**226,875**	201,287	13
NGLs	**9,449**	9,659	-2	**33,796**	39,310	-14
Gas	**27,081**	50,448	-46	**110,409**	121,752	-9
Revenue, before marketing	**94,033**	93,000	1	**371,080**	362,349	2
Marketing revenue (2)	**3,730**	7,350	-49	**23,276**	26,928	-14
Total revenue (1)	**97,763**	100,350	-3	**394,356**	389,277	1
Cost of purchases (3)	**(3,890)**	(2,770)	40	**(16,740)**	(21,616)	-23
Kelt Revenue (4)	**93,873**	97,580	-4	**377,616**	367,661	3
Average realized prices before financial instruments (5)						
Oil ($/bbl)	**63.25**	38.77	63	**66.94**	65.82	2
NGLs ($/bbl)	**21.01**	27.75	-24	**20.62**	33.81	-39
Gas ($/mcf)	**2.95**	6.37	-54	**3.26**	3.76	-13
Combined ($/BOE)	**32.64**	36.94	-12	**34.53**	37.30	-7

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

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

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

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

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

Revenue before marketing for the fourth quarter of 2019 was $94.0 million, an increase of 1% from $93.0 million from the fourth quarter of 2018. Revenue before marketing for the twelve months ending December 31, 2019 was $371.1 million, up 2% from the comparable period in 2018.

The increase in revenue in the fourth quarter of 2019 is primarily due to a 9% increase in production and an increase in benchmark oil prices, partially offset by a decrease in benchmark natural gas prices. The increase in revenue for the twelve months ending December 31, 2019 versus the comparable period in 2018 is primarily due to an 11% increase in production, partially offset by a decrease in benchmark NGLs and natural gas prices.

Average realized prices decreased 12% to $32.64 per BOE and 7% to $34.53 per BOE in the three months and twelve months ending year ended December 31, 2019, respectively versus the comparable periods in 2018. The decrease in realized prices was primarily due to a decrease in benchmark natural gas and NGLs prices, partially offset by an increase in benchmark oil prices.

OIL REVENUE

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Oil production (average bbls per day)	**9,900**	9,301	6	**9,361**	8,403	11
Oil revenue, before marketing	**57,503**	32,893	75	**226,875**	201,287	13
Marketing revenue, net of cost of purchases (1)	**105**	286	-63	**1,860**	623	199
Kelt Oil Revenue	**57,608**	33,179	74	**228,735**	201,910	13
Average realized oil prices ($/bbl) (2)(3)						
Before financial instruments	**63.25**	38.77	63	**66.94**	65.82	2
Realized gain (loss) on financial instruments	**(0.61)**	-	-	**(0.16)**	-	-
After financial instruments	**62.64**	38.77	62	**66.78**	65.82	1
Average realized price, percentage of MSW (7)	**92%**	91%		**97%**	95%	
Benchmark oil prices:						
WTI Cushing Oklahoma (US$/bbl) (5)	**56.96**	59.08	-4	**56.98**	64.94	-12
WTI Cushing Oklahoma (CA$/bbl) (5)	**75.18**	78.25	-4	**75.62**	84.20	-10
Mixed Sweet Blend Edmonton ("MSW")($/bbl) (4)	**68.00**	42.72	59	**69.19**	69.29	-
MSW % of CA$WTI	**90%**	55%	64	**91%**	82%	11
Average exchange rate (CA$/US$) (6)	**1.3200**	1.3281	-1	**1.3268**	1.2977	2

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

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

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

(4) Source: Tidal Energy Marketing.

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

(6) Source: Bank of Canada.

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

Kelt realized an average oil price before financial instruments of $63.25 per barrel during the three months ended December 31, 2019, up from $38.77 per barrel during the comparative period of 2018. During the fourth quarter of 2018, widening differentials for Canadian crude oil due to a lack of pipeline takeaway capacity resulted in an average MSW price to WTI (CA) price of 55%, compared to 90% in the fourth quarter of 2019. The differential between Canadian and global crude oil prices returned to historical levels by the end of December 2018 as the Government of Alberta announced mandated province wide crude oil curtailments for major Alberta oil producers.

Kelt realized an average oil price before financial instruments of $66.94 per barrel during the year ended December 31, 2019, compared to $65.82 per barrel during the comparative period of 2018. WTI prices have been range bound for the last two years between USD $50-70 per barrel. In 2019, higher production volumes out of the US shale plays and trade tensions primarily between the US and China have resulted in downward pressure on the price of oil. These bearish oil price signals have been offset by generally positive economic data coming out of the US, and an increase in annual global oil demand growth of approximately 1.0 million barrels per day. Geopolitical tensions created some short term price volatility in 2019 with an attack in September on a Saudi Aramco processing facility temporarily shutting in 5.7 million barrels of oil.

NGL REVENUE

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
NGLs production (average bbls per day)	**4,888**	3,783	29	**4,490**	3,186	41
NGLs barrels per mmcf of natural gas sales	**49**	40	23	**46**	34	35
NGLs revenue	**9,449**	9,659	-2	**33,796**	39,310	-14
Average realized NGLs prices ($/bbl)	**21.01**	27.75	-24	**20.62**	33.81	-39
Average realized price, percentage of CA$WTI (1)	**28%**	35%		**27%**	40%	
Benchmark NGLs prices (2) ($/bbl):						
Edmonton Pentane	**74.95**	65.08	15	**71.39**	79.46	-10
% of CA$WTI	**100%**	83%	20	**94%**	94%	-
Edmonton Butane	**40.93**	15.44	165	**23.71**	34.18	-31
% of CA$WTI	**54%**	20%	170	**31%**	41%	-24
Edmonton Propane	**26.88**	25.32	6	**17.16**	27.29	-37
% of CA$WTI	**36%**	32%	13	**23%**	32%	-28
Edmonton Ethane	**6.87**	6.06	13	**6.31**	4.66	35
% of CA$WTI	**9%**	8%	13	**8%**	6%	33

(1) Average realized NGLs price, divided by the CA$WTI reference price for the period.

(2) Source: Sproule Associates Limited.

Kelt's NGLs revenue decreased 2% in the fourth quarter of 2019, and 14% in the twelve months ending December 31, 2019 compared to the same periods in 2018. Despite a 29% increase in average production for the fourth quarter of 2019, and a 41% increase in average production for the 12 months ending December 31, 2019, a decrease in Kelt's realized NGLs prices resulted in an overall decrease in NGLs revenue. The increase in NGLs production in 2019 was driven by the Company's development drilling program in its condensate rich Montney acreage in both BC and Alberta.

Kelt realized an average price for its NGL sales of $21.01 per barrel (28% of CA$WTI) during the fourth quarter of 2019, down from $27.75 per barrel (35% of CA$WTI) during the fourth quarter of 2018. Kelt realized an average price for its NGL sales of $20.62 per barrel (27% of CA$WTI) during the twelve months ended December 31, 2019, down from $33.81 per barrel (40% of CA$WTI) during the comparable period in 2018. The decrease in NGLs prices in 2019 was primarily driven by a disconnect in propane and butane prices from WTI benchmark prices due to an oversupply in Western Canada and constrained takeaway capacity.

Starting in the second quarter of 2020, Kelt has secured the sale of propane volumes to the AltaGas Ridley Island Facility, giving Kelt access to a Far East Propane Index pricing netback which will reduce the Company's exposure to the Western Canadian NGLs pricing hubs.

GAS REVENUE

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Gas production (MCF per day)	**98,844**	93,759	5	**96,658**	92,502	4
Gas revenue, before marketing	**27,081**	50,448	-46	**110,409**	121,752	-9
Marketing revenue, net of cost of purchases (10)	**(265)**	4,295	-106	**4,675**	4,690	-
Kelt Gas Revenue	**26,816**	54,743	-51	**115,084**	126,442	-9
Average realized gas price ($/MCF)						
Before financial instruments	**2.95**	6.37	-54	**3.26**	3.76	-13
Realized gain (loss) on financial instruments	**0.03**	(0.70)	-104	**(0.01)**	(0.19)	-95
After financial instruments	**2.98**	5.67	-47	**3.25**	3.57	-9
Kelt average premium to AECO 5A (1)	**19%**	286%		**85%**	141%	
Benchmark gas prices:						
NYMEX Henry Hub (US$/MMBtu) (2)	**2.49**	3.55	-30	**2.62**	3.04	-14
Average exchange rate (CA$/US$) (3)	**1.3200**	1.3281	-1	**1.3268**	1.2977	2
NYMEX Henry Hub (CA$/MMBtu) (2)	**3.29**	4.73	-30	**3.47**	3.95	-12
AECO 5A (CA$/MMBtu) (4)	**2.47**	1.47	68	**1.76**	1.48	19
Chicago-City Gate (CA$/MMBtu) (5)	**2.88**	4.89	-41	**3.20**	3.92	-18
Dawn (CA$/MMBtu) (6)	**2.95**	5.00	-41	**3.19**	4.05	-21
Malin (CA$/MMBtu) (7)	**3.50**	5.22	-33	**3.54**	3.51	1
Sumas (CA$/MMBtu) (8)	**5.54**	15.05	-63	**5.04**	5.73	-12
Station 2 (CA$/MMBtu) (9)	**1.49**	0.67	122	**1.02**	1.25	-18

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

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

(3) Source: Bank of Canada.

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

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

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

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

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

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

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

Natural gas revenue before marketing decreased 46% to $27.1 million in the fourth quarter of 2019 and decreased 9% to $110.4 million in the twelve months ended December 31, 2019 as compared to the same periods in 2018. Both decreases are consistent with the decrease in natural gas prices compared to the prior year.

For the twelve months ending December 31, 2019, Kelt's realized price before financial instruments was $3.26 per MCF, a decrease of 13% from the twelve months ending December 31, 2018. Many US markets experienced higher natural gas prices in the first quarter of 2019 due to a cold start to the winter heating season and lower than historical storage volumes. After the first quarter of 2019, strong North American supply growth allowed natural gas inventories to build at a rate greater than the historical average during the 2019 storage injection season. By the fourth quarter of 2019 many of the US natural gas benchmarks were trading significantly lower than in 2018.

In the local Canadian market, AECO and Station 2 prices improved in the fourth quarter of 2019 as gas storage was low entering the winter heating season and changes to the priority service for the Nova Gas Transmission Ltd. natural gas pipeline has once again allowed deliveries of natural gas into storage during seasonal gas demand lows and during pipeline maintenance. This additional storage capacity has resulted in a re-balancing of the Canadian natural gas market, and has narrowed the Canadian/US natural gas differential in the fourth quarter of 2019.

Kelt actively manages its marketing portfolio to maximize its netbacks. Due to an increase in the relative AECO and Station 2 benchmark prices in the fourth quarter of 2019, Kelt did not renew some of its firm transportation exposure to the Chicago market. The Company now expects approximately 50% of its 2020 average gas sales at the AECO and Station 2 price hubs, compared to approximately 6% in 2019.

ROYALTIES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Royalties	**3,606**	5,542	-35	**19,301**	30,701	-37
Average royalty rate [(1)]	**3.8%**	6.0%	-37	**5.2%**	8.5%	-39
$ per BOE	**1.25**	2.10	-40	**1.76**	3.11	-43

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

Kelt's average royalty rate was 3.8% during the fourth quarter of 2019, compared to 6.0% during the fourth quarter of 2018. Kelt's average royalty rate was 5.2% for the twelve months ended December 31, 2019 compared to 8.5% for the year ended December 31, 2018.

Kelt's BC Montney wells brought on-stream in 2019 qualify for the Province's deep-well royalty program which allows for favorable royalty treatment at the beginning of the life of the well and have resulted in a reduction in per BOE royalty expense in 2019. In addition, gas royalties are calculated based on gas reference prices determined by the government and are reduced by BC producer cost of service and Alberta gas cost allowance credits. In 2019 the Company increased its spending on allowable infrastructure resulting in an increase to the government credit deductions in 2019 as compared to 2018.

In the fourth quarter of 2019, Kelt received $0.9 million from the BC government for the BC Infrastructure Royalty Credit Program. The credit is applied against royalties as they are incurred, resulting in a lower average royalty rate when compared to the same period in 2018. Kelt also received approval in the fourth quarter of 2019 for an additional $18.5 million in future royalty credits relating to infrastructure expenditures at its Oak/flatrock resource play.

PRODUCTION EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Production expense [(1)]	**26,143**	22,674	15	**100,384**	89,792	12
$ per BOE	**9.09**	8.58	6	**9.18**	9.11	1

(1) For the quarter ended and year-ended December 31, 2019, production expenses exclude $0.2 million and $1.1 million of lease payments, respectively, which would have been included in production expenses for prior periods before the implementation of IFRS 16 on January 1, 2019.

The Company incurred total production expenses of $26.1 million during the fourth quarter of 2019 up 15% compared to the same period in 2018 primarily due to an increase of 9% in production volumes. Production expenses per BOE increased to $9.09 per BOE during the fourth quarter of 2019, compared to $8.58 per BOE in the same period in 2018.

Production expenses of $100.4 million for the year ended December 31, 2019, increased 12% from the twelve months ended December 31, 2018 due to higher production volumes. On a per BOE basis, production expense was consistent with 2018.

TRANSPORTATION EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Transportation expense (1)	**10,195**	**12,263**	-17	**50,516**	**38,646**	31
$ per BOE	**3.54**	**4.64**	-24	**4.62**	**3.92**	18

(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.

In the fourth quarter of 2019 several gas transportation contracts to deliver natural gas on the Alliance pipeline to Chicago expired reducing transportation expense to $3.54 per BOE, a decrease of 24% from $4.64 per BOE in the fourth quarter of 2018. Kelt chose not to renew a large portion of its firm deliveries to Chicago due to the relative strength of benchmark pricing at other markets.

Transportation expenses averaged $4.62 per BOE during the twelve months ending December 31, 2019, an increase of 18% from $3.92 per BOE in the twelve months ended December 31, 2018. The increase in average per unit transportation expenses compared to 2018 was due to higher pipeline tolls under marketing arrangements entered into in the fourth quarter of 2018 to deliver natural gas on the Alliance pipeline to Chicago, as well as higher oil and liquids trucking costs in British Columbia due to third-party pipeline downtime.

FINANCING EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Interest on bank debt	**2,988**	1,491	100	**9,833**	4,697	109
Fees on bank debt	**240**	279	-14	**782**	859	-9
Interest on convertible debentures	**1,134**	1,133	-	**4,496**	4,497	-
Interest on finance lease	**32**	-	-	**165**	-	-
Interest on financing liability	**34**	-	-	**104**	-	-
Total interest expense	**4,428**	2,903	53	**15,380**	10,053	53
Accretion of convertible debentures	**1,159**	1,040	11	**4,399**	3,949	11
Accretion of decommissioning obligations	**718**	846	-15	**2,994**	3,193	-6
Total financing expense	**6,305**	4,789	32	**22,773**	17,195	32
Interest expense per BOE (1)	**1.54**	1.10	40	**1.41**	1.02	38
Average principal amount outstanding during period:						
Bank debt	**298,793**	155,063	93	**249,910**	127,437	96
Convertible debentures	**89,910**	89,910	-	**89,910**	89,949	-
Average total principal amount of debt outstanding	**388,703**	244,973	59	**339,820**	217,386	56
Average interest rates:						
Bank debt (2)	**4.0%**	3.8%	5	**3.9%**	3.7%	5
Convertible debentures	**5.0%**	5.0%	-	**5.0%**	5.0%	-

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

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

The Company's average bank debt outstanding increased for both the three months and year ended December 31, 2019 resulting in an increase in total interest expense from the prior year.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Salaries and benefits	**2,554**	2,336	9	**10,340**	9,383	10
Other G&A expenses	**1,400**	1,429	-2	**4,949**	4,664	6
Gross G&A expenses	**3,954**	3,765	5	**15,289**	14,047	9
Overhead recoveries	**(1,477)**	(1,329)	11	**(6,400)**	(5,695)	12
Net G&A expenses (1)	**2,477**	2,436	2	**8,889**	8,352	6
Gross G&A ($ per BOE)	**1.37**	1.43	-4	**1.40**	1.43	-2
Net G&A ($ per BOE)	**0.86**	0.92	-7	**0.81**	0.85	-5

(1) For the quarter ended and year-ended December 31, 2019, G&A expenses exclude $85K and $0.3 million of lease payments, respectively, which would have been included in G&A expenses for prior periods before the implementation of IFRS 16 on January 1, 2019.

Kelt emphasizes a low G&A cost structure relative to its peers. Net G&A expenses for the fourth quarter of 2019 was $2.5 million compared to $2.4 million in the prior year. For the year ended December 31, 2019, net G&A expenses were $8.9 million compared to $8.4 million in 2018. Kelt's production has increased at a higher rate than G&A expense therefore on a per BOE basis, net G&A decreased 7% for the three months ended December 31, 2019 and decreased by 5% for the year ended December 31, 2019 compared to the same period in 2018.

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 December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Stock options	**898**	942	-5	**4,152**	3,964	5
Restricted share units ("RSUs")	**559**	802	-30	**2,707**	2,144	26
Total SBC expense	**1,457**	1,744	-16	**6,859**	6,108	12
$ per BOE	**0.51**	0.66	-23	**0.63**	0.62	2

The increase in SBC expense for the twelve months ending December 31, 2019 as compared to the prior year is primary due to additional expense related to stock options and RSU's granted in Q4 2018, which are amortized over a three year period and therefore 2019 reflects a full year of expense. The decrease in SBC expense for the three months ending December 31, 2019 as compared to the prior year is primarily due to fewer restricted shares units issued in 2019 as compared to 2018.

As at December 31, 2019, stock options and RSUs outstanding represent 5.8% of total shares outstanding (December 31, 2018 – 6%).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Expired mineral leases	**278**	1,716	-84	**1,151**	5,211	-78
Exploratory well expense	**3,904**	-	-	**3,904**	-	-
Total exploration and evaluation expense	**4,182**	1,716	144	**5,055**	5,211	-3
$ per BOE	**1.45**	0.65	123	**0.46**	0.53	-13

The Company expensed $0.3 million of costs related to the expiry of non-core land holdings during the quarter ended December 31, 2019 and $1.2 million in the year ended December 31, 2019, compared to lease expiries of $1.7 million and $5.2 million expensed in the comparative period. The lease expiries in 2019 all relate to non-core land holdings as the Company continues to focus on the development of its core areas, with the majority of the lease expiry's related to leases acquired under previous corporate acquisitions.

In the fourth quarter of 2019 Kelt expensed $3.9 million related to an unsuccessful non-Montney exploratory well.

DEPLETION, DEPRECIATION AND IMPAIRMENT

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Depletion and depreciation	**39,389**	36,221	9	**156,396**	145,299	8
Impairment	**-**	7,668	-100	**-**	10,668	-100
Total depletion, depreciation and impairment	**39,389**	43,889	-10	**156,396**	155,967	-
Depletion and depreciation ($/BOE)	**13.70**	13.71	-	**14.30**	14.74	-3
Impairment ($/BOE)	**-**	2.91	-100	**-**	1.09	-100

Depletion and depreciation was $156.4 million for the year ended December 31, 2019 compared to $156.0 million in 2018. On a per BOE basis, total depletion and depreciation per BOE decreased by 3% compared to the prior year.

Due to a decline in forecasted commodity prices in 2019, an impairment test was conducted over all Kelt's CGUs; however no impairment was recognized for the Company's CGUs as the estimated recoverable amount of Kelt's two CGUs significantly exceeded its carrying value. In 2018, an impairment of $10.7 million (before tax) was recognized, of which $7.7 related to a non-core natural gas asset, and $3.0 million related to a non-core asset which was sold in the third quarter of 2018.

GAIN (LOSS) ON SALE OF ASSETS

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Gain on sale of assets	**899**	3,365	-73	**6,902**	3,562	94

In the current year, the Company disposed of certain non-core oil and gas assets with a net book value of $2.0 million. Consideration received was measured at fair value, for a total of $8.9 million (which included non-cash swap transactions of $3.2 million), resulting in a gain on sale of $6.9 million.

In 2018, the Company completed the disposition of non-operated assets in the Karr and Leduc areas for total proceeds of $9.7 million after closing adjustments resulting in a total gain on sale of $3.6 million.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Realized loss	**(304)**	(5,900)	-95	**(912)**	(5,900)	-85
Unrealized gain (loss)	**(3,996)**	2,596	-254	**(4,902)**	2,596	-289
Loss on derivative financial instruments	**(4,300)**	(3,304)	30	**(5,814)**	(3,304)	76
$ per BOE	**(1.50)**	(1.25)	20	**(0.53)**	(0.34)	56

Commodity price risk

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

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

Contract Type	Notional Volume	Reference Price (1) (2)	Fixed Contract Price	Term
Crude oil derivative contracts				
Basis swap	2,000 bbl/d	MSW	WTI less USD$8.00 per bbl	Jan 2020
Fixed price swap	6,000 bbl/d	WTI	CAD$75.63 per bbl	Jan - Mar 2020
Fixed price swap	4,000 bbl/d	WTI	CAD$77.55 per bbl	Apr - Jun 2020
Basis swap	3,000 bbl/d	MSW	WTI less CAD$6.40 per bbl	Apr - Jun 2020
Basis swap	1,000 bbl/d	MSW	WTI less USD$4.60 per bbl	Apr - Jun 2020
NGL derivative contracts				
Fixed price swap	500 bbl/d	OPIS-Conway propane	CAD$23.35 per bbl	Apr 2020 - Mar 2022
Natural gas derivative contracts				
Fixed price swap	5,000 MMBtu/d	Sumas	USD$3.70 per MMBtu	Jan 2020
Basis swap	10,000 MMBtu/d	Malin	NYMEX less USD$0.316 per MMBtu	Jan - Feb 2020
Fixed price swap	15,000 MMBtu/d	NYMEX	CAD$2.76 per MMBtu	Apr - Nov 2020

(1) West Texas Intermediate ("WTI")

(2) Mixed Sweet Blend ("MSW")

Interest rate risk

The Company is exposed to interest rate risk as changes in market interest rates will impact the Company's credit facility which is subject to a floating interest rate. Based on average bank debt outstanding of $249.9 million during the year ended December 31, 2019, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.6 million.

Foreign exchange risk

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

As at March 6, 2020, there are no foreign exchange risk management contracts outstanding.

FLOW-THROUGH SHARES

(CA$ thousands, except as otherwise indicated)					Eligible Expenditures [1]			Expenditure Period End and Effective date of Renunciation
						As at December 31, 2019		
Closing Dates	# of FTS	Price per FTS	Gross Proceeds	Deferred Premium	Type	Incurred	Remaining	
April 27, 2018, April 30, 2018	2.348 million	$8.85	20,778	2,324	CDE	20,778	-	December 31, 2018
April 27, 2018, April 30, 2018	0.410 million	$9.75	3,998	775	CEE	3,998	-	December 31, 2018
December 20, 2019	**3.450 million**	**$5.05**	**17,423**	**1,346**	**CDE**	**-**	**17,423**	**April 30, 2020**

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

On December 20, 2019, the Company issued 3.45 million flow-through shares ("FTS") in respect to Canadian development expenses for gross proceeds of $17.4 million ("the 2019 Flow-through"). The FTS were issued at a price of $5.05 per FTS, resulting in a premium of $1.3 million which is deferred and presented as liability until the Company has incurred qualifying capital expenditures. As at March 6, 2020, the Company fully satisfied all obligations related to 2019 Flow-through.

INCOME TAXES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Deferred income tax expense (recovery)	**(775)**	1,167	-166	**2,835**	14,699	-81
Profit (Loss) before taxes	**(3,403)**	4,010	-185	**9,407**	22,853	-59
Effective tax recovery rate	**22.8%**	29.1%	-22	**30.1%**	64.3%	-53

Kelt's consolidated combined federal and provincial statutory tax rate averaged 26.8% and 27.0% during the twelve months ended December 31, 2019 and 2018, respectively.

The higher effective tax rate in 2018, compared to 2019, was primarily due to $29.8 million of qualifying expenditures which have been renounced to subscribers of the flow-through private placements.

Kelt does not expect to pay income taxes in the current year as the Company had sufficient income tax deductions available to shelter taxable income. The Company's consolidated tax pools are estimated to be approximately $1,184.7 million as of December 31, 2019 as summarized in the table below.

(CA$ thousands, unless otherwise indicated)	Rate	**December 31 2019**	December 31 2018	% change
Canadian oil and gas property expenses (COGPE)	10-15%	**115,792**	128,254	-10
Canadian development expenses (CDE)	30-45%	**254,985**	216,975	18
Canadian exploration expenses (CEE)	100%	**109,508**	105,921	3
Undepreciated capital cost [1] (UCC)	25-37.5%	**264,870**	254,430	4
Share and debt issue costs	5 years	**1,805**	4,010	-55
Non-capital losses [2] (NCL)	100%	**437,754**	339,031	29
Estimated tax deductions available, end of period		**1,184,714**	1,048,621	13

(1) The majority of the Company's undepreciated capital cost deductions relate to Class 41 assets, which are deductible at a rate of 25-37.5% per year.
(2) The Company's non-capital losses expire in years 2023 to 2039.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income and adjusted funds from operations generated during the three months and year ended December 31, 2019 and 2018.

THREE MONTHS ENDED DECEMBER 31TH	**2019**		2018		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**97,763**	**33.99**	100,350	37.99	-3	-11
Cost of purchases	**(3,890)**	**(1.35)**	(2,770)	(1.05)	40	29
Realized loss on financial instruments (1)	**(304)**	**(0.11)**	(5,900)	(2.23)	-95	-95
Royalties	**(3,606)**	**(1.25)**	(5,542)	(2.10)	-35	-40
Revenue, after royalties and financial instruments	**89,963**	**31.28**	86,138	32.61	4	-4
Production expense	**(26,143)**	**(9.09)**	(22,674)	(8.58)	15	6
Transportation expense	**(10,195)**	**(3.54)**	(12,263)	(4.64)	-17	-24
Operating income/netback (2)	**53,625**	**18.65**	51,201	19.39	5	-4
Financing expense (3)	**(4,428)**	**(1.54)**	(2,903)	(1.10)	53	40
G&A expense	**(2,477)**	**(0.86)**	(2,436)	(0.92)	2	-7
Other income	**-**	**-**	845	0.32	-100	-100
Realized gain (loss) on foreign exchange	**(65)**	**(0.02)**	433	0.16	-115	-113
Adjusted funds from operations (2)	**46,655**	**16.23**	47,140	17.85	-1	-9
Basic ($ per common share) (4)	**0.25**		0.26		-4	
Diluted ($ per common share) (4)	**0.25**		0.26		-4	
Common shares outstanding (000s):						
Basic, weighted average	**184,763**		183,994		-	
Diluted, weighted average	**185,108**		184,682		-	

YEAR ENDED DECEMBER 31TH	**2019**		2018		% change	
(CA$ thousands, unless otherwise indicated)	**Amount**	**$/BOE**	Amount	$/BOE	Amount	$/BOE
Petroleum and natural gas sales	**394,356**	**36.06**	389,277	39.49	1	-9
Cost of purchases	**(16,740)**	**(1.53)**	(21,616)	(2.19)	-23	-30
Realized loss on financial instruments (1)	**(912)**	**(0.08)**	(5,900)	(0.60)	-85	-87
Royalties	**(19,301)**	**(1.76)**	(30,701)	(3.11)	-37	-43
Revenue, after royalties and financial instruments	**357,403**	**32.69**	331,060	33.59	8	-3
Production expense	**(100,384)**	**(9.18)**	(89,792)	(9.11)	12	1
Transportation expense	**(50,516)**	**(4.62)**	(38,646)	(3.92)	31	18
Operating income/netback (2)	**206,503**	**18.89**	202,622	20.56	2	-8
Financing expense (3)	**(15,380)**	**(1.41)**	(10,053)	(1.02)	53	38
G&A expense	**(8,889)**	**(0.81)**	(8,352)	(0.85)	6	-5
Other income	**562**	**0.05**	1,960	0.19	-71	-74
Realized gain (loss) on foreign exchange	**(275)**	**(0.03)**	662	0.07	-142	-143
Adjusted funds from operations (2)	**182,521**	**16.69**	186,839	18.95	-2	-12
Basic ($ per common share) (4)	**0.99**		1.02		-3	
Diluted ($ per common share) (4)	**0.99**		1.01		-2	
Common shares outstanding (000s):						
Basic, weighted average	**184,302**		182,576		1	
Diluted, weighted average	**184,946**		184,393		-	

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

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

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

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

During the three months ended December 31, 2019, adjusted funds from operations of $46.7 million ($0.25 per share, diluted) which slightly decreased by 1% from $47.1 million ($0.26 per share, diluted) comparable period in 2018.

During the year ended December 31, 2019, adjusted funds from operations of $182.5 million ($0.99 per share, diluted) decreased by 2% from $186.8 million ($1.01 per share, diluted) during the year ended December 31, 2018. The decrease in adjusted funds from operations is primarily attributed to the increase financing expense and decrease in other income which is offset by an increase in operating income. The increase in operating income is primarily due to a decrease in the realized loss on financial instruments and the decrease in royalties during the year ended December 31, 2019.

PROFIT (LOSS) AND COMPREHENSIVE INCOME

	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Profit (loss) and comprehensive income (loss)	**(2,628)**	2,843	-192	**6,572**	8,154	-19
$ per common share, basic	**(0.01)**	0.02	-150	**0.04**	0.04	-
$ per common share, diluted [(1)(2)]	**(0.01)**	0.02	-150	**0.04**	0.04	-
$ per BOE	**(0.88)**	1.08	-181	**0.60**	0.81	-26
Wtd avg. shares outstanding, basic (000s)	**184,763**	183,994	-	**184,302**	182,576	1
Wtd avg. shares outstanding, diluted (000s) [(1)(2)]	**185,108**	184,682	-	**184,946**	184,393	-

(1) The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted profit per common share. In computing the diluted loss per common share for the fourth quarter ended December 31, 2019, the Company excluded the effect of stock options and RSUs as the Company was in a net loss position. In computing the diluted profit per common share for the fourth quarter ended December 31, 2019 the dilutive impact of the effect of stock options and RSUs was negligible.

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

Kelt reported a loss of $2.6 million ($0.01 per common share, diluted) for the quarter ended December 31, 2019, compared to a profit of $2.8 million ($0.02 per common share, diluted) in the same quarter of 2018. Kelt reported a profit of $6.6 million ($0.04 per common share, diluted) for the year ended December 31, 2019, compared to a profit of $8.2 million ($0.04 per common share, diluted) in the prior year.

INVESTING ACTIVITIES

CAPITAL EXPENDITURES

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Capital expenditures:						
Lease acquisition and retention	**420**	686	-39	**2,249**	4,829	-53
Geological and geophysical	**94**	415	-77	**1,319**	714	85
Drilling and completion of wells	**35,098**	44,738	-22	**184,735**	168,655	10
Facilities, pipeline and well equipment	**28,907**	31,657	-9	**128,252**	117,748	9
Corporate assets	**11**	10	10	**771**	762	1
Capital expenditures, before A&D	**64,530**	77,506	-17	**317,326**	292,708	8
Property acquisitions (1)	**775**	11	6,945	**7,183**	2,860	151
Property dispositions (1)	**(1,322)**	(7,185)	-82	**(8,885)**	(10,070)	-12
Total capital expenditures, net of A&D	**63,983**	70,332	-9	**315,624**	285,498	11

(1) Includes the impact of non-cash asset swap transactions in which $3.2 million of exploration and evaluation assets were exchanged for assets with a net book value of $671k.

DRILLING

Drilling and completion expenditures for the three month period ended December 31, 2019, and during the year ended December 31, 2019 were focused on Montney wells in the Company's core Alberta and BC areas. During the year ended December 31, 2019, the Company drilled 33 (33.0 net) wells compared to 33 (32.1 net) wells in 2018 and completed 36 wells (36.0 net) in 2019 compared to 29 wells (28.1 net) in 2018.

	Three months ended December 31		Year ended December 31	
Net Wells	**2019**	2018	**2019**	2018
Drilling	**6.0**	8.0	**33.0**	32.1
Completion	**6.0**	9.0	**36.0**	28.1

FACILITIES

Facility expenditures during 2019 included $128.3 million, primarily related to the Company's Inga 2-10 Facility, its Wembley 1-14 Facility, and the construction and installation of pipelines that will transport oil, emulsion, water, sweet gas and sour gas from Kelt wells to processing facilities. The significant infrastructure expenditures at Inga/Fireweed and Wembley in 2018 and 2019 are expected to benefit Kelt in the future by providing natural gas processing and liquids handling capacity for future production growth.

During the fourth quarter of 2019, Kelt continued with the construction of a pipeline from the Inga 2-10 Facility to a third party processing facility. The third party processing facility is expected to be on-stream in the first quarter of 2020, and together with the Inga 2-10 Facility (which was brought on-stream in the second quarter of 2019), is expected to allow for low cost growth at the Company's Inga/Fireweed development drilling program.

PROPERTY ACQUITISIONS AND DISPOSITIONS

During the year ended December 31, 2019, the Company acquired undeveloped land of $7.0 million, developed land of $0.8 million, and decommissioning obligations of $0.6 million. The net assets acquired and the liabilities assumed were recorded at fair value of $7.2 million, and included cash consideration of $4.0 million and non-cash swap transactions of $3.2 million.

During the year ended December 31, 2019, the Company disposed of certain non-core oil and gas assets which mainly included undeveloped land of $2.9 million and decommissioning obligations of $0.9 million. Consideration received was measured at fair value and included cash consideration of $5.7 million and non-cash swap transactions of $3.2 million, resulting in a gain on sale of $6.9 million.

LAND HOLDINGS

The table below sets-out Kelt's significant Montney land holdings across British Columbia and Alberta as at December 31, 2019.

MONTNEY RIGHTS	**Net Acres**	Net Sections
British Columbia	**349,534**	546
Alberta	**167,674**	262
Total	**517,208**	808

Kelt's is one of the largest holders of Montney rights in Canada with 808 net sections. The Company's acreage at Inga/Fireweed, Wembley/Pipestone and Pouce Coupe/Progress has been tested to have high oil and NGLs recoveries.

CAPITAL RESOURCES AND LIQUIDITY

MARKET CAPITALIZATION

The Company's total capitalization was $1.6 billion as of December 31, 2019, an increase of 16% from December 31, 2018. The market value of common shares, based on the closing share price on the TSX, represented 59% of the total capitalization.

The following table summarizes the Company's capitalization:

CAPITALIZATION	**As at December 31, 2019**		As at December 31, 2018		%
(CA$ thousands, except per share amounts)	**Amount**	**% of total**	Amount	% of total	change
Common shares outstanding (000s)	**187,786**		184,003		2
Share price (1)	**$4.87**		$4.64		5
Capitalization of common shares	**914,518**	**59**	853,774	63	7
Convertible debentures outstanding	**89,910**		89,910		-
Market price of Debentures (1)	**$114.00**		$110.73		3
Capitalization of convertible debentures	**102,497**	**7**	99,557	7	3
Market capitalization	**1,017,015**	**65**	953,331	71	7
Net bank debt (2)	**328,080**	**21**	196,416	15	67
Decommissioning obligations (long term portion)	**157,929**	**10**	143,763	11	10
Deferred income tax liability	**56,429**	**4**	53,606	3	5
Lease liability	**1,613**	**-**	-	-	-
Total capitalization	**1,561,066**	**100**	1,347,116	100	16

(1) Last price traded at in the year.

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

LIQUIDITY

Kelt's capital management objective is to maintain a flexible capital structure and sufficient liquidity to allow the Company to execute on its capital investment program. The Company manages its capital structure in response to changes in economic conditions and the risk characteristics of its underlying oil and natural gas assets. As at December 31, 2019, Kelt's capital structure was comprised of shareholders' capital, convertible debentures, bank debt and working capital.

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

The capital intensive nature of Kelt's operations may result in increases to bank debt or working capital deficiency during periods with high levels of capital investment. For the year ended 2019 the Company's capital expenditures net of A&D of $315.6 million were in excess of the Company's adjusted funds from operations of $182.5 million and net proceeds from the December 2019 flow-through private placement of $17.4 million. As a result, Kelt's net bank debt increased to $328.1 million at December 31, 2019 from $196.4 million at December 31, 2018. As at December 31, 2019, the Company's net bank debt to annualized quarterly adjusted funds from operations ratio increased to 1.8 times from 1.1 times as at December 31, 2018. In 2020, the Company is forecasting capital expenditures to be in-line with adjusted funds from operations.

	December 31, 2019	December 31, 2018
Bank debt	**300,000**	168,881
Working capital deficiency	**28,080**	27,535
Net bank debt (1)	**328,080**	196,416
Annualized quarterly adjusted funds from operations (1)(2)	**186,620**	186,839
Net bank debt to annualized quarterly adjusted funds from operations ratio (1)	**1.8**	1.1

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

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

The Company targets to maintain sufficient unused bank credit lines to satisfy working capital deficiencies. As at December 31, 2019, the Company's working capital deficit of $28.1 million combined with outstanding bank debt of $300.0 million, represented 94% of the authorized borrowing amount available under the credit facility of $350.0 million.

Future capital expenditures are expected to be funded through a combination of cash flow from operations and bank debt, and may be supplemented by new equity or debt offerings.

CREDIT FACILITY

The Company has a revolving committed term credit facility of $350 million ("the Credit Facility") with a syndicate of financial institutions (2018 - $250 million). The credit facility has a 364-day revolving period and is subject to annual review by the lenders, at which time the lenders can extend the revolving period or request conversion to a one year term loan. The next annual review is expected to take place in April 2020.

During 2019, the credit facility was increased on two occasions: 1) to $315.0 million at the conclusion of the lender's annual review in March; 2) to $350.0 million following the mid-year review in November. Borrowing under the credit facility may be made by way of prime loans, bankers acceptances and US libor advances.

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

CONVERTIBLE DEBENTURES

At December 31, 2019, the Company has $89.9 million of convertible unsecured subordinated debentures outstanding (the "Debentures"). The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the “Conversion Price”), being a conversion rate of approximately 181.8182 common shares per $1,000 principal amount of Debentures, subject to adjustment in certain circumstances.

The Debentures are redeemable by the Company after May 31, 2019 and prior to May 31, 2020, in whole or in part, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ended five trading days (the “Current Market Price”) prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after May 31, 2020 and prior to the Maturity Date, the Debentures may be redeemed by the Company, in whole or in part on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest.

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

As at December 31, 2019, the Debentures are not “in-the-money” based on the closing price of Kelt common shares on the TSX of $4.87, on the last trading day in the quarter.

The following table outlines Kelt’s Debenture trading activity during 2019 and 2018:

DEBENTURE TRADING ACTIVITY (KEL.DB)	**YTD 2019**	YTD 2018
High ($)	**132.00**	186.05
Low ($)	**98.15**	106.00
Close ($)	**114.00**	110.73
Volume traded (number of Debentures)	**136,440**	63,200
Value of Debentures traded ($ thousands)	**14,301**	9,778
Weighted average trading price ($)	**104.82**	154.71

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2019 there were 187.8 million common shares issued and outstanding. There are no preferred shares issued or outstanding.

As at December 31, 2019, officers, directors, and employees have been granted options to purchase 10.0 million common shares of the Company at an average exercise price of $4.76 per common share. In addition, there are 0.9 million RSUs outstanding.

The following table outlines Kelt’s common share trading activity during 2019 and 2018:

SHARE TRADING ACTIVITY (KEL)	**YTD 2019**	YTD 2018
High ($)	**6.14**	10.01
Low ($)	**2.45**	3.97
Close ($)	**4.87**	4.64
Volume traded (thousands)	**237,903**	217,872
Value traded ($ thousands)	**1,012,073**	1,546,138
Weighted average trading price ($)	**4.25**	7.10

COMMITMENTS

As of December 31, 2019, the Company is committed to future payments under the following agreements:

(CA$ thousands)	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments (1)	17,797	18,716	22,643	21,286	19,135	94,140
Firm transportation commitments (2)	37,273	28,526	27,019	22,258	20,743	161,707
Total annual commitments	**55,070**	**47,242**	**49,662**	**43,544**	**39,878**	**255,847**

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on December 31, 2019 of CA$/US$1.2988.

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases on the balance sheet some of which were previously reported as commitments. Refer to note 3 of the consolidated annual financial statements for a reconciliation from the commitments as at December 31, 2018 to Kelt's lease liabilities as at January 1, 2019.

RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where a director of Kelt is a partner, and has engaged the services of a registrar and transfer agent where an officer of Kelt is a director of the company. During the year ended December 31, 2019, the Company incurred $0.5 million (2018 – $0.4 million) in disbursements to related parties.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended December 31, 2019 and 2018.

RESERVES

Kelt retained Sproule Associates Limited ("Sproule"), an independent qualified reserve evaluator to prepare a report on its oil and gas reserves (the "Sproule Report"). The Company has a Reserves Committee which oversees the selection, qualifications and reporting procedures of the independent engineering consultants. Reserves as at December 31, 2019 and at December 31, 2018 were determined using the guidelines and definitions set out under National Instrument 51-101 ("NI 51-101"). The Sproule Report is dated February 19, 2020 and is effective as of December 31, 2019.

At December 31, 2019, Kelt's proved plus probable reserves were 461.0 million BOE, up 52% from 302.7 million BOE at December 31, 2018. The Company's net present value of proved plus probable reserves at December 31, 2019, discounted at 10% before tax, was $3.9 billion, an increase of 27% from $3.1 billion at December 31, 2018. The undiscounted future net cash flow, before tax, was $10.2 billion as of December 31, 2019, an increase of 53% from $6.7 billion as of December 31, 2018. This increase was achieved despite lower forecasted oil and gas prices for the future years in the December 31, 2019 evaluation (see "Future Commodity Price Forecast" table below). Sproule's forecasted commodity prices for 2020 used to determine the present value of the Company's reserves at December 31, 2019, are US$61.00 per barrel for WTI oil and CAD$1.93 per GJ for AECO-C gas.

At December 31, 2019, the weighting of proved plus probable reserves was 47% oil/NGLs and 53% natural gas. At December 31, 2018, the weighting of proved plus probable reserves was 43% oil/NGLs and 57% natural gas.

The following table outlines a summary of the Company's reserves volumes at December 31, 2019:

SUMMARY OF RESERVE VOLUMES	Crude Oil (mbbls)	Liquids[1] (mbbls)	Natural Gas (mmcf)	**Combined (mBOE)**	**FDC Costs ($ thousands)**
Proved developed producing	5,552	15,970	163,994	**48,854**	**10,020**
Proved developed non-producing	407	2,118	13,912	**4,844**	**19,632**
Proved undeveloped	7,728	71,517	549,834	**170,884**	**1,349,244**
Total Proved	**13,687**	**89,605**	**727,740**	**224,582**	**1,378,896**
Probable additional	11,403	101,629	740,201	**236,399**	**1,075,551**
Total Proved plus Probable	**25,090**	**191,234**	**1,467,941**	**460,981**	**2,454,447**

(1) "Liquids" include field condensate and NGLs.

CHANGE IN RESERVES – YEAR OVER YEAR (mBOE)	**December 31 2019**	December 31 2018	% Change
Proved developed producing	**48,854**	40,701	20
Proved developed non-producing	**4,844**	7,350	-34
Proved undeveloped	**170,884**	110,392	55
Total Proved	**224,582**	158,443	**42**
Probable additional	**236,399**	144,235	64
Total Proved plus Probable	**460,981**	302,678	**52**

The following tables reconcile the change in total proved ("1P") reserves and the change in total proved plus probable ("2P") reserves during the year:

RESERVES RECONCILIATION – 1P TOTAL PROVED	Crude Oil (mbbls)	Liquids[1] (mbbls)	Natural Gas (mmcf)	**Combined (mBOE)**
Balance, December 31, 2018	13,110	50,617	568,298	**158,443**
Extensions	741	18,881	94,555	**35,381**
Infill drilling	1,975	16,139	84,969	**32,276**
Technical revisions	(200)	8,091	25,433	**12,130**
Economic factors	(336)	(705)	(10,734)	**(2,830)**
Acquisitions	-	35	367	**96**
Net additions	**2,180**	**42,441**	**194,590**	**77,053**
2019 Production [2]	(1,603)	(3,453)	(35,148)	**(10,914)**
Balance, December 31, 2019 [2]	**13,687**	**89,605**	**727,740**	**224,582**

(1) "Liquids" include field condensate and NGLs.

(2) Sulphur production of 22 MBOE have been excluded in the above table.

RESERVES RECONCILIATION – 2P TOTAL PROVED PLUS PROBABLE	Crude Oil (mbbls)	Liquids[1] (mbbls)	Natural Gas (mmcf)	**Combined (mBOE)**
Balance, December 31, 2018	23,752	105,095	1,042,987	**302,678**
Extensions	1,266	44,754	231,509	**84,605**
Infill drilling	3,198	37,691	206,125	**75,243**
Technical revisions	(1,197)	7,883	31,198	**11,886**
Economic factors	(326)	(785)	(9,245)	**(2,652)**
Acquisitions	-	49	515	**135**
Net additions	**2,941**	**89,592**	**460,102**	**169,217**
2019 Production [2]	(1,603)	(3,453)	(35,148)	**(10,914)**
Balance, December 31, 2019 [2]	**25,090**	**191,234**	**1,467,941**	**460,981**

(1) "Liquids" include field condensate and NGLs.

(2) Sulphur production of 22 MBOE have been excluded in the above table.

The following table outlines future development capital ("FDC") (as hereafter defined) expenditures outlays for total proved reserves and total proved plus probable reserves included in the December 31, 2019 reserve evaluations:

FDC EXPENDITURES ($ thousands)	2020	2021	2022	2023	2024	Thereafter	Total
Proved reserves	148,717	327,544	336,965	384,450	181,220	-	1,378,896
Proved plus probable	163,852	380,863	399,952	454,307	450,554	604,919	2,454,447

The following table outlines FDC expenditures and future wells to be drilled by province, included in the December 31, 2019 and 2018 reserve evaluations for proved plus probable reserves:

FDC EXPENDITURES	**Year ended December 31, 2019**		Year ended December 31, 2018	
TOTAL PROVED PLUS PROBABLE	**FDC ($M)**	**Net Wells**	FDC ($M)	Net Wells
Alberta Montney Wells	**581,614**	**101.3**	331,835	59.3
B.C. Montney Wells	**1,463,797**	**270.0**	743,803	140.0
Total Montney Wells	**2,045,411**	**371.3**	1,075,638	199.3
Other formations (including Doig/Charlie Lake)	**355,148**	**85.4**	355,088	76.6
Other expenditures	**53,888**	**-**	43,372	-
Total FDC Expenditures	**2,454,447**	**456.7**	1,474,098	275.9

The following table outlines forecasted future prices that Sproule has used in their evaluation of the Company's reserves at December 31, 2019:

FUTURE COMMODITY PRICE FORECAST	WTI Cushing Oklahoma US$/bbl	Canadian Light Sweet CA$/bbl	NYMEX Henry Hub US$/MMBtu	AECO-C Spot CA$/GJ	USD/CAD Exchange US$/CA$
2020	61.00	73.84	2.80	1.93	0.76
2021	65.00	78.51	3.00	2.15	0.77
2022	67.00	78.73	3.25	2.66	0.80
2023	68.34	80.30	3.32	2.74	0.80
2024	69.71	81.91	3.38	2.83	0.80
Five year average	**66.21**	**78.66**	**3.15**	**2.46**	**0.79**

The following table summarizes the net present value of the Company's reserves (before tax) as at December 31, 2019:

NET PRESENT VALUE (BEFORE TAX)			
(CA$ millions)	Undiscounted	NPV 5% BT	NPV 10% BT
Proved developed producing	530.6	563.9	514.3
Proved developed non-producing	855.6	68.7	57.0
Proved undeveloped	3,123.2	1,966.1	1,328.4
Total Proved	**4,509.4**	**2,598.7**	**1,899.7**
Probable additional	5,676.0	3,225.1	2,088.8
Total Proved plus Probable	**10,185.4**	**5,823.8**	**3,988.5**

The following table summarizes the net present value of the Company's reserves (after tax) as at December 31, 2019:

NET PRESENT VALUE (AFTER TAX)			
(CA$ millions)	Undiscounted	NPV 5% AT	NPV 10% AT
Proved developed producing	530.6	563.9	514.3
Proved developed non-producing	855.6	68.7	57.0
Proved undeveloped	2,428.1	1,523.6	1,022.6
Total Proved	**3,814.3**	**2,156.2**	**1,593.9**
Probable additional	4,205.0	2,369.7	1,520.1
Total Proved plus Probable	**8,019.3**	**4,525.9**	**3,114.0**

During 2019, the Company's capital expenditures, net of dispositions, resulted in proved plus probable reserve additions of 169.2 million BOE, and 2P finding, development and acquisition ("FD&A") cost of $7.66 per BOE (2018 - $7.75 per BOE), including FDC expenditures. Proved reserve additions in 2019 were 77.1 million BOE, resulting in 1P FD&A costs of $10.68 per BOE (2018 - $10.80 per BOE), including FDC expenditures. Kelt was able to show significant reserve additions from new wells and from certain existing wells that have produced at rates that have exceeded previous estimates. Capital expenditures in 2019 were $315.6 million, up 11% from $285.5 million in 2018.

The following table outlines the calculation of the Company's 1P FD&A costs and 1P recycle ratio:

FINDING, DEVELOPMENT & ACQUISITION COSTS – 1P	Year ended December 31	
(CA$ thousands, except as otherwise noted)	**2019**	2018
Proved (1P) reserves:		
Total capital expenditures, net of dispositions (1)	**315,624**	285,498
Change in FDC costs required to develop 1P reserves	**507,348**	95,548
Total capital costs	**822,972**	381,046
1P Reserve additions, net (mBOE)	**77,053**	35,297
1P FD&A cost, including FDC ($/BOE)	**10.68**	10.80
Operating netback ($/BOE) (2)	**18.89**	20.56
1P Recycle ratio	**1.8 x**	1.9 x

(1) Comprised of the Company's total exploration and development capital expenditures, as well as acquisitions, net of proceeds from dispositions. Refer to "*Capital Expenditures*" table in this MD&A.

(2) Kelt's "Operating netback" calculation is provided under the heading of "*Non-GAAP Financial Measures and Other Key Performance Indicators*".

The following table outlines the calculation of the Company's 2P FD&A costs and 2P recycle ratio:

FINDING, DEVELOPMENT & ACQUISITION COSTS – 2P	Year ended December 31	
(CA$ thousands, except as otherwise noted)	**2019**	2018
Proved plus probable (2P) reserves:		
Total capital expenditures, net of dispositions (1)	**315,624**	285,498
Change in FDC costs required to develop 2P reserves	**980,349**	310,506
Total capital costs	**1,295,973**	596,004
2P Reserve additions, net (mBOE)	**169,217**	76,905
2P FD&A cost, including FDC ($/BOE)	**7.66**	7.75
Operating netback ($/BOE) (2)	**18.89**	20.56
2P Recycle ratio	**2.5 x**	2.7 x

(1) Comprised of the Company's total exploration and development capital expenditures, as well as acquisitions, net of proceeds from dispositions. Refer to "*Capital Expenditures*" table in this MD&A.

(2) Kelt's "Operating netback" calculation is provided under the heading of "*Non-GAAP Financial Measures and Other Key Performance Indicators*".

Kelt's 2019 capital investment program resulted in net reserve additions that replaced 2019 production by a factor of 7.1 times on a proved basis (2018 – 3.6 times) and 15.5 times on a proved plus probable basis (2018 – 7.8 times).

"FD&A cost per BOE" is a key performance indicator commonly used in the oil and gas industry. Readers are cautioned that these amounts may not be directly comparable to other companies, as the term "FD&A cost" does not have a standardized meaning under GAAP or NI 51-101 (refer to advisories under the heading of *"Non-GAAP Financial Measures and Other Key Performance Indicators"*).

The recycle ratio is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment. It accomplishes this by comparing the operating netback per BOE to the same period's reserve FD&A cost per BOE. With the purchase and construction of facilities and infrastructure in 2019 and 2018, along with land and asset acquisitions during the year, Kelt has positioned itself to achieve high efficiencies in production additions and finding and development costs over the upcoming years, as it continues to transition to development/pad drilling.

The tables below summarize production replacement for 2019:

PRODUCTION REPLACEMENT	Crude Oil	Liquids(1)	Natural Gas	Combined
TOTAL PROVED RESERVES	(mbbls)	(mbbls)	(mmcf)	(mBOE)
Reserve additions, including revisions	2,180	42,441	194,590	**77,053**
2019 Production (2)	1,603	3,453	35,148	**10,914**
Production replacement ratio – 1P	**1.4**	**12.3**	**5.5**	**7.1**

(1) "Liquids" include field condensate and NGLs.

(2) Sulphur production of 22 MBOE has been excluded in the above tables.

PRODUCTION REPLACEMENT	Crude Oil	Liquids(1)	Natural Gas	Combined
TOTAL PROVED PLUS PROBABLE RESERVES	(mbbls)	(mbbls)	(mmcf)	(mBOE)
Reserve additions, including revisions	2,941	89,592	460,102	**169,217**
2019 Production (2)	1,603	3,453	35,148	**10,914**
Production replacement ratio – 2P	**1.8**	**25.9**	**13.1**	**15.5**

(1) "Liquids" include field condensate and NGLs.

(2) Sulphur production of 22 MBOE has been excluded in the above tables.

NET ASSET VALUE

The Company estimates its net asset value to be $4.0 billion or $18.78 per common share as at December 31, 2019 based on the present value of its 2P reserves before tax, discounted at 10%. The components of Kelt's net asset value calculation are set-forth in the table below. The reader is cautioned that these amounts may not be directly comparable to other companies, as the term "net asset value" does not have a standardized meaning under GAAP or NI 51-101. The net present value of petroleum and natural gas ("P&NG") reserves was determined by Sproule in their year-end evaluation reports, based on a discount rate of 10% before-tax. Undeveloped land at December 31, 2019 was internally valued at an average price of $600 per acre (2018 – $455 per acre). Starting in 2019, Sproule included Kelt's total decommissioning obligations, as determined in accordance with GAAP and as reported in the consolidated financial statements, in its present value of proved producing reserves, using a discount rate of 10% to match the discount rate applied to value P&NG reserves.

(CA$ thousands, except per share amounts)	**December 31, 2019**	December 31, 2018
Present value of 2P P&NG reserves, discounted at 10% before tax (1)	**3,988,482**	3,119,592
Undeveloped land	**350,617**	279,739
Net bank debt (4)	**(328,080)**	(196,416)
Proceeds from exercise of stock options (2)	**29,145**	6,404
Net asset value	**4,040,164**	3,209,319
Fully diluted common shares outstanding (000s) (2)(3)	**215,187**	206,978
Net asset value ($ per common share)	**18.78**	15.51

(1) Includes the net present value of the Company's estimated decommissioning obligations. $9.0 million of incremental decommissioning obligation costs were deducted from the amount included in the present value of P&NG reserves as evaluated by Sproule as at December 31, 2018.

(2) The calculation of proceeds from exercise of stock options and the diluted number of common shares outstanding only include stock options that are "in-the-money" based on the closing price of KEL of $4.87 and $4.64 per common share respectively, as at December 31, 2019 and 2018. All outstanding RSUs are included in diluted common shares outstanding.

(3) The 5% convertible debentures that mature on May 31, 2021 are convertible to common shares at $5.50 per share. At the December 31, 2019 closing price of $4.87 per share, the convertible debentures are "out-of-the-money" and 19.4 million shares issuable at a 5% discount are included in diluted common shares outstanding. At the December 31, 2018 closing price of $4.64, the convertible debentures are "out-of-the-money" and 20.4 million shares issuable at a 5% discount are included in diluted common shares outstanding.

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

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)	**Q4 2019**	Q3 2019	Q2 2019	Q1 2019
Petroleum and natural gas sales	**97,763**	93,274	100,734	102,585
Cash provided by operating activities	**35,396**	14,640	58,639	53,813
Adjusted funds from operations (1)	**46,655**	39,173	44,606	50,363
Per share – basic ($/common share)	**0.25**	0.21	0.25	0.28
Per share – diluted ($/common share)	**0.25**	0.21	0.25	0.28
Profit (loss) and comprehensive income (loss)	**(2,628)**	(2,909)	2,740	9,369
Per share – basic ($/common share)	**(0.01)**	(0.02)	0.01	0.05
Per share – diluted ($/common share)	**(0.01)**	(0.02)	0.01	0.05
Total capital expenditures, net of dispositions	**63,983**	52,657	91,022	107,962
Total assets	**1,605,465**	1,602,566	1,577,824	1,515,227
Net bank debt (1)	**328,080**	320,507	308,636	258,351
Convertible debentures	**82,789**	81,630	80,512	79,426
Shareholders' equity	**923,062**	908,190	909,373	904,835
Average daily production (BOE/d)	**31,262**	31,150	30,314	27,057
Average realized price ($/BOE) (1)(2)	**32.53**	30.85	35.01	40.31
Operating netback ($/BOE) (1)	**18.65**	15.68	18.50	23.39

(CA$ thousands, except as otherwise indicated)	**Q4 2019**	Q3 2019	Q2 2019	Q1 2019
Operating netback % of average realized price [2]	**57%**	51%	53%	58%
	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Petroleum and natural gas sales	100,350	100,219	98,715	89,993
Cash provided by operating activities	63,656	29,881	39,183	53,663
Adjusted funds from operations [1]	47,140	46,876	47,099	45,724
Per share – basic ($/common share)	0.26	0.25	0.26	0.25
Per share – diluted ($/common share)	0.26	0.25	0.25	0.25
Profit (loss) and comprehensive income (loss)	2,843	3,246	1,702	(23)
Per share – basic ($/common share)	0.02	0.02	0.01	-
Per share – diluted ($/common share)	0.02	0.02	0.01	-
Total capital expenditures, net of dispositions	70,332	68,427	54,702	92,037
Total assets	1,423,521	1,378,114	1,346,701	1,337,688
Net bank debt [1]	196,416	176,046	157,058	173,587
Convertible debentures	78,390	77,350	76,348	75,443
Shareholders' equity	893,796	889,275	882,916	857,019
Average daily production (BOE/d)	28,711	26,204	26,120	26,978
Average realized price ($/BOE) [1][2]	34.71	37.74	38.51	36.07
Operating netback ($/BOE) [1]	19.39	20.93	21.57	20.47
Operating netback as a % of average realized price [2]	56%	55%	56%	57%

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

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

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

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

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

Over the past two years, as the Company has dedicated a significant percentage of its capital expenditures to delineate its Inga/Fireweed and Wembley/Pipestone properties including the cost of production facilities and pipelines. Capital spending has outpaced funds flow; however the significant infrastructure capital expenditures in

2018 and 2019 are expected to benefit Kelt in low cost future production additions from new development wells in the Company's Inga/Fireweed and Wembley/Pipestone operating divisions.

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.

SELECTED ANNUAL INFORMATION

The following table summarizes key annual financial and operating information over the three most recently completed financial years.

(CA$ thousands, except as otherwise indicated)	**2019**	2018	2017
Petroleum and natural gas sales	**394,356**	389,277	257,557
Cash provided by operating activities	**162,488**	186,383	115,222
Adjusted funds from operations (1)	**182,521**	186,839	108,011
Per share – basic ($/common share)	**0.99**	1.02	0.61
Per share – diluted ($/common share)	**0.99**	1.01	0.61
Profit (loss) and comprehensive income (loss)	**6,572**	8,154	(23,178)
Per share – basic ($/common share)	**0.04**	0.04	(0.13)
Per share – diluted ($/common share)	**0.04**	0.04	(0.13)
Total capital expenditures, net of dispositions	**315,624**	285,498	127,977
Total assets	**1,605,465**	1,423,521	1,276,567
Net bank debt (1)	**328,080**	196,416	136,729
Convertible debentures	**82,789**	78,390	74,517
Shareholders' equity	**923,062**	893,796	845,701
Average daily production (BOE/d)	**29,961**	27,006	22,130
Average realized price ($/BOE) (1)(2)	**34.45**	36.70	31.38
Operating netback ($/BOE) (1)	**18.89**	20.56	15.28
Operating netback as a % of average realized price (2)	**55%**	56%	49%

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

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

NEW ACCOUNTING POLICIES

The Company adopted IFRS 16 *Leases* ("IFRS 16") with a date of initial application of January 1, 2019. IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and other related interpretations. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease arrangements previously recognized as an operating lease under IAS 17. On adoption, the Company's lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019 of 5.9%. Right-of-use assets were measured at an amount equal to the lease liability or, if IFRS 16 had been applied from the lease commencement date, using the Company's incremental borrowing rate on January 1, 2019. Refer to note 3 of the consolidated annual financial statements for additional information.

SIGNIFICANT JUDGMENTS AND ESTIMATES

The significant accounting policies applied by the Company are disclosed in note 3 of the consolidated annual financial statements as at and for the year ended December 31, 2019. 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 discussed below.

Depletion, depreciation and reserves

The Company calculates depletion based on total proved reserves as determined in accordance with the Canadian Oil and Gas Evaluation Handbook (“COGEH”). The process of determining reserves is complex. Significant judgments are based on available geological, geophysical, engineering, and economic data. These judgments are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation can be impacted by subjective decisions, new geological or production information and a changing environment. In addition, revisions to reserve estimates can arise from changes in forecast oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion. Reserves are used in measuring the fair value less costs of disposal (“FVLCD”) of property, plant and equipment for impairment calculations and for determining the fair value of PP&E acquired in a business combination. Reserves also impact the Company’s assessment of the commercial viability and technical feasibility of an exploration project and the decision to transfer exploration and evaluation assets to PP&E.

Exploration and evaluation assets

Judgment is required to determine the level at which E&E is assessed for impairment. For Kelt, the carrying value of E&E assets is assessed for overall impairment at the operating segment level and on a specific identification basis prior to transferring E&E assets to PP&E. The decision to transfer assets from E&E to PP&E requires judgment as it is based on estimated proved reserves, which are used, in part, to determine a project’s technical feasibility and commercial viability. Refer to additional information regarding E&E assets in note 5 of these financial statements.

Determination of Cash Generating Units (“CGUs”)

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. As at December 31, 2019, the Company has one CGU for its assets located in the province of British Columbia and one CGU for its assets located in the province of Alberta. Refer to specific information regarding the Company’s CGUs in note 6 of the consolidated annual financial statements.

Impairment of non-financial assets

Significant judgment is required to assess the Company’s non-financial assets, namely E&E and PP&E, for impairment or potential reversals of previously recorded impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset’s continued use or sale. In addition, judgment is required to assess whether a previously recognized impairment for an asset no longer exists or has decreased.

Significant judgment and estimates are required to calculate the recoverable amount of PP&E in an impairment test. Management calculates the recoverable amount of each CGU based on its FVLCD, using an after-tax discounted cash flow analysis derived from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and are subject to variability due to changes in forecasted commodity prices. In addition, the present value of forecast future cash flows is highly sensitive to the discount rate. Judgment is required to determine an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Refer to note 6 of the consolidated annual financial statements for a discussion of the specific estimates and assumptions applied in the impairment test performed at December 31, 2019.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require significant judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment.

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and infrastructure. In most instances, dismantling of assets and remediation occurs many years into the future. The value of the ultimate decommissioning obligation can fluctuate in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, changes to the risk-free discount rate and changes to inflation. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate. Key assumptions are disclosed in note 9 of the consolidated annual financial statements.

Kelt estimates abandonment and reclamation costs based on a combination of publically available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the proved plus probable period to abandonment for each depletable area, as per the independent reserve report. For non-producing wells, the expected timing of settlement is estimated to be half of the period applied to producing wells in that field, unless the timing to abandon and reclaim a specific well site or facility is known based on budgeted expenditures.

Deferred income taxes

The Company follows the liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, deferred income taxes are subject to measurement uncertainty. The provision for deferred income taxes also includes the following significant judgments of management:

• Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. The deferred tax liability reported in the Consolidated Statement of Financial Position is presented net of offsetting deferred income tax assets. The Company's non-capital losses expire in years 2023 to 2039. Management believes that Kelt and Kelt LNG will have sufficient taxable income in the future in order to utilize the non-capital losses and has concluded that recognition of the associated deferred income tax assets is appropriate;

• Classification of intangible drilling and completion costs as Canadian exploration expenses ("CEE") or Canadian development expenses ("CDE") – CEE is deductible at a rate of 100% per year, whereas CDE may be deducted on a declining basis at 30%-45% per year. Accordingly, the allocation of resource deductions will impact the period in which Kelt may become taxable in the future. In addition, the designation of certain expenditures as CEE and/or CDE impacts the Company's ability to satisfy its flow-through share obligations; and

• Recognition of unrecognized deferred income tax asset – per IAS 12, deferred income taxes are not initially recognized on transactions that are not business combinations. The Company did not initially recognize a deferred income tax asset of $14.4 million that arose on the spin-out certain assets from Celtic Exploration Ltd. ("Celtic") at Kelt's inception on February 26, 2013. The initially unrecognized deferred tax asset is now being amortized at a rate of 2.5% per quarter, which management believes is a reasonable estimate as it reflects the weighted average depletion rate of the properties at the time of the spin-out and is aligned with Kelt's corporate average depletion rate.

Share based compensation

The Company uses the fair value method of accounting for its long-term incentive plans, which include an Incentive Stock Option Plan and a Restricted Share Unit Plan. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value.

For stock options, the Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in note 12 of the consolidated annual financial statements.

The fair value of restricted share units is estimated based on the volume weighted average trading price ("VWAP") on the TSX over three trading days immediately prior to the date of grant. Judgment is also required to estimate the number of restricted share units that will ultimately vest, in other words, the rate of forfeiture. The assumptions used by the Company are discussed in note 12 of the consolidated annual financial statements.

Flow-through shares

There is no IFRS guidance that specifically addresses accounting for flow-through shares, therefore the Company is required to develop an accounting policy. Consistent with prior years, and as set-forth in note 3 of the consolidated annual financial statements, the Company has applied the residual method. Under this method, judgement is required to determine of the fair value of ordinary shares. Typically, it is based on the share price at the time the parties agree to the transaction. In situations where flow-through shares are issued concurrent with an ordinary common share offering, the difference in subscription prices is used to value the premium. Otherwise, the Company uses the VWAP of KEL common shares for the five trading days immediately preceding the date of the binding agreement, to value the ordinary common shares.

Judgment is also required to determine when the Company has fulfilled its obligation to pass on the tax deduction to investors, at which time, the premium on flow-through shares is recognized in income. The Company deems the obligation to have been fulfilled in the period that eligible expenditures are incurred, regardless of the period in which the tax deductions are legally renounced.

Leases

The Company applies judgement in reviewing each of its contractual arrangements to determine whether the lease falls within the scope of IFRS 16. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

The measurement of right-of-use ("ROU") assets and lease liabilities are subject to management's judgement of the applicable incremental borrowing rate when the rate implicit in a lease is not readily determinable. Applicable incremental borrowing rates are based on management's judgements of the economic environment, term, the underlying risk inherent to the asset (which may vary due to changes in the market conditions) and the expected lease term.

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.

The CEO and the CFO have evaluated the effectiveness of Kelt's disclosure controls and procedures as at December 31, 2019 and have concluded that such disclosure controls and procedures are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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 October 1, 2019 to December 31, 2019. The CEO and the CFO have evaluated the effectiveness of Kelt's internal controls over financial reporting as at December 31, 2019 and have concluded that such internal controls over financial reporting are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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.

BUSINESS RISKS

The Company is exposed to various operational and financial risks inherent in the exploration, development, production and marketing of crude oil, NGLs and natural gas liquids. These inherent risks include, but are not limited to, the following:

- Reservoir quality and the uncertainty of reserves estimates;
- Volatility in the prevailing prices of crude oil, NGLs and natural gas;
- Regulatory risk related to the approval for exploration and development activities, which can add to costs or cause delays in projects;
- Environmental impact risk associated with exploration and development activities, including GHG;
- Future legislative and regulatory developments related to environmental regulation;
- Geopolitical risks associated with changing governments or governmental policies, social instability and other political, economic or diplomatic developments in the regions where the Company has its operations;
- The ability to find, produce and replace reserves at a reasonable cost, including the risk of reserve revisions due to economic and technical factors. Reserve revisions can have a positive or negative impact on asset valuations, ARO, lending capacity and depletion rates;
- Labour risk to complete projects in a timely and cost efficient manner;
- Operating hazards inherent in the exploration, development, production and sale of crude oil and natural gas;
- Credit risk related to non-payment for sales contracts or other counterparties;
- Interest rate risk associated with the Company's ability to ability to secure financing on commercially acceptable terms;
- Foreign exchange risk as commodity sales are predominantly based on US dollar denominated benchmarks;

- Business interruptions because of unexpected events such as fires or explosions whether caused by human error or nature, severe storms and other calamitous acts of nature, blowouts, freeze-ups, mechanical or equipment failures of facilities and infrastructure and other similar events affecting the Company or other parties whose operations or assets directly or indirectly impact the Company and that may or may not be financially recoverable;
- Potential actions of governments, regulatory authorities and other stakeholders that may result in costs or restrictions in the jurisdictions where the Company has operations;
- Changing royalty regimes;
- The ability to secure adequate transportation for products which could be affected by pipeline constraints, the construction by third parties of new or expansion of existing pipeline capacity and other factors;
- The access to markets for the Company's products;
- The risk of significant interruption or failure of the Company's information technology systems and related data and control systems or a significant breach that could adversely affect the Company's operations.

The Company uses a variety of means to help mitigate or minimize these risks. The Company maintains a comprehensive insurance program to reduce risk. Operational control is enhanced by focusing on large core areas with high working interests and operatorship of drilling and completion operations. Product mix is diversified between natural gas, NGLs and oil which reduces price risk in certain market conditions. Accounts receivable from the sale of crude oil and natural gas are mainly with customers in the crude oil and natural gas industry and are subject to normal industry credit risks. The Company manages these risks by monitoring exposure to individual customers, contractors, suppliers and joint venture partners on a regular basis and when appropriate, ensuring parental guarantees or letters of credit are in place, and as applicable, taking other mitigating actions to minimize the impact in the event of a default. The Company is exposed to possible losses in the event of non-performance by counterparties to derivative financial instruments; however, the Company manages this credit risk by primarily entering into agreements with counterparties that are investment grade financial institutions, and reviews its counterparties on an on-going basis. The Company has implemented cyber security protocols and procedures to reduce the risk of failure or a significant breach of the Company's information technology systems and related data and control systems. The Company's capital structure mix is also monitored on a continual basis to ensure that it optimizes flexibility, minimizes cost and offers the greatest opportunity for growth. This includes the determination of a reasonable level of debt and any interest rate exposure risk that may exist.

A more detailed description of the Company's risks is included in the Annual Information Form as at December 31, 2019, dated March 6, 2020 which can be found at www.sedar.com.

BUSINESS OUTLOOK

CURRENT ECONOMIC ENVIRONMENT

The current economic environment in the energy industry remains volatile, with the key factors below:

- The COVID-19 virus has impacted global trade at the start off 2020, with a risk that the global oil demand impact becomes greater than currently anticipated;
- US crude oil production continues to break monthly production records however U.S. crude oil inventories continue to remain within the 5-year band as both exports and domestic consumption increase;
- Global trade tension continue to place downward projections on consumer demand with heightened risk of a global recession occurring if the US and China do not reach a comprehensive trade deal; however some progress was reached in the fourth quarter of 2019 as trade talks continue between the US and China;
- Increased geopolitical risk continued in the third quarter of 2019 with an attack on two Saudi Aramco oil processing facilities shutting in approximately 5% of the global oil supply. This production shut-in was only temporary with Saudi Aramco announcing full production capacity retuning by the end of September; however geopolitical risks remain heightened in the wake of this attack;
- Political instability in Venezuela continues throughout 2019 and into 2020;
- U.S. natural gas exports (to Mexico and through brownfield LNG export terminals) continue to grow supporting North American natural gas prices;
- Strong North American natural gas supply growth and a warm 2019-20 winter resulted in a significant increase in storage, placing downward pricing pressure on natural gas prices;
- Changes to the priority service for the Nova Gas Transmission Ltd. natural gas pipeline at the end of the third quarter of 2019 has allowed deliveries of natural gas into storage during seasonal gas demand lows and during pipeline maintenance. This additional storage capacity has resulted in a re-balancing of the Canadian natural gas market, and has narrowed the Canadian/US natural gas differential in the fourth quarter of 2019; and
- Potential climate change regulations could have a significant impact on Canadian natural resource industries.

In the current business environment, Kelt continues to focus on maintaining a strong balance sheet, giving the Company the ability to take advantage of opportunities as they arise. The Company's capital expenditure program is also flexible, with the ability to defer expenditures into the future if the current economic environment deteriorates rapidly. Kelt continues to be optimistic about the long-term outlook for oil and gas commodity prices.

OUTLOOK AND GUIDANCE

Kelt expects to drill 25 net wells and complete 28 net wells in 2020. The 2020 capital expenditures are expected to be allocated as follows: $145.0 million for drilling and completing wells, $70.0 million for facilities, pipeline and equipment and $10.0 million for land and seismic.

Forecasted average production for 2020 is estimated to be between 38,500 BOE/d to 41,000 BOE/d, representing an increase of 29%-37% from actual production in 2019. It is estimated that production will be weighted approximately 52% to oil and NGLs and 48% to natural gas.

WTI crude oil prices are forecasted to average US$52.00 per barrel in 2020, and Canadian Light Sweet is forecasted to average $61.54/bbl in 2020, a decrease of 9% and 11% respectively over the 2019 prices. Natural gas prices are forecast to average $2.11/mmbtu for AECO and $2.97/mmbtu for NYMEX in 2020. After taking in account its marketing arrangements, Kelt expects to realize a natural gas price of $2.52/mmbtu in 2020 which is a premium to AECO of 19%.

The Company is forecasting 2020 adjusted funds from operations of $225.0 million and $1.19 per common share, diluted, an increase of 23% and 20%, respectively, over 2019 actuals. Net bank debt is estimated to be $302.0 million at December 31, 2020 representing a net bank debt to annualized quarterly adjusted funds from operations ratio of

1.3 times and a decrease of 8% over the net bank debt as at December 31, 2019 of $328.1 million.

The table below outlines the Company's forecast assumptions and financial and operating forecast for 2020 with a comparison to the 2019 actuals:

(CA$ millions, except as otherwise indicated)	**Current 2020 Guidance**	**2019 Actuals**	**% Change**
Average Production			
Oil and NGLs (bbls/d)	**19,600 – 21,000**	13,851	42% - 52%
Gas (mmcf/d)	**114.0 – 122.0**	96.7	18% - 26%
Combined (BOE/d)	**38,500 – 41,000**	29,961	29% - 37%
Production per million common shares (BOE/d)	**209 - 222**	163	28% - 36%
Average Commodity Prices			
WTI oil price (US$/bbl)	**52.00**	56.98	-9%
Canadian Light Sweet ($/bbl)	**61.54**	69.19	-11%
NYMEX natural gas price (US$/MMBTU)	**2.25**	2.62	-14%
AECO natural gas price (US$/MMBTU)	**1.60**	1.76	-9%
Average Exchange Rate (US$/CA$)	**0.758**	0.754	1%
Capital Expenditures			
Drilling & completions	**145.0**	184.7	-21%
Facilities, pipeline & well equipment	**70.0**	128.3	-45%
Land & seismic	**10.0**	4.3	133%
Property acquisitions and dispositions	**-**	(1.7)	-
Net Capital Expenditures	**225.0**	315.6	-29%
Adjusted funds from operations (1)	**225.0**	182.5	23%
Per common share, diluted (1)	**1.19**	0.99	20%
Net bank debt, at year-end (1) (2)	**302.0**	328.1	-8%
Net bank debt to annualized quarterly adjusted funds from operations ratio (1)	**1.3 x**	1.8 x	-28%
Weighted average common shares outstanding (millions)	**188.0**	184.3	2%

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

(2) In addition to net bank debt, the Company has $89.9 million principal amount of 5% convertible subordinated unsecured debentures outstanding, maturing on May 31, 2021 and convertible to common equity at a price of $5.50 per share. Also, in addition to net bank debt, Kelt estimates 2020 year-end financial liabilities of $23.4 million primarily relating to the Inga 16-inch gas pipeline.

A 10% increase (decrease) in the Company's forecasted average oil price for 2020 would increase (decrease) forecasted adjusted funds from operations by approximately $19.9 million ($20.1 million). A 10% increase (decrease) in the Company's forecasted average NGL price for 2020 would increase (decrease) forecasted adjusted funds from operations by approximately $5.0 million ($5.0 million). A 10% increase (decrease) in the Company's average gas price forecasted for 2019 would increase (decrease) adjusted funds from operations by approximately $12.2 million ($11.8 million). A 5% increase (decrease) in the forecasted average exchange rate would increase (decrease) adjusted funds from operations by approximately $17.4 million ($18.0 million).

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

The table below outlines the Company's current forecasted guidance for 2020 with a comparison to the previously announced 2020 guidance included in Kelt's press release dated November 8, 2019:

(CA$ millions, except as otherwise indicated)	**Current 2020 Guidance**	**Previous 2020 Guidance (Nov 8, 2019)**	**% Change**
Average Production			
Oil and NGLs (bbls/d)	**19,600 – 21,000**	**20,300 – 21,700**	**-3%**
Gas (mmcf/d)	**114.0 – 122.0**	**110.0 – 118.0**	**4%**
Combined (BOE/d)	**38,500 – 41,000**	**38,500 – 41,000**	**-**
Production per million common shares (BOE/d)	**209 - 222**	**209 - 222**	-
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**52.00**	**52.00**	-
Canadian Light Sweet ($/bbl)	**61.54**	**62.09**	-1%
NYMEX natural gas price (US$/MMBTU)	**2.25**	**2.75**	-18%
AECO natural gas price (US$/MMBtu)	**1.60**	**1.85**	-14%
Average Exchange Rate (US$/CA$)	**0.758**	**0.765**	1%
Capital Expenditures			
Drilling & completions	**145.0**	**155.0**	-6%
Facilities, pipeline & well equipment	**70.0**	**70.0**	-
Land & seismic	**10.0**	**10.0**	-
Net Capital Expenditures	**225.0**	**235.0**	-4%
Adjusted funds from operations (1)	**225.0**	**235.0**	-4%
Per common share, diluted (1)	**1.19**	**1.27**	-6%
Net bank debt, at year-end (1) (2)	**302.0**	**292.0**	3%
Net bank debt to annualized quarterly adjusted funds from operations ratio (1)	**1.3 x**	**1.2 x**	8%
Weighted average common shares outstanding (millions) (1)	**188.0**	**184.3**	2%

(1) In addition to bank debt, the Company has $89.9 million principal amount of convertible debentures outstanding with a coupon of 5% per annum, maturing May 31, 2021. 2019 Budget and Pro-forma estimates have been prepared assuming the convertible debentures convert to 16.3 million common shares on July 1, 2019.

The Company has reduced its NYMEX Henry Hub natural gas forecast for 2020 to US$2.25 per MMBtu, down 18% from its previous forecast. Kelt estimates that the CAD/USD exchange rate will average 1.320 (US$0.758), up 1% from its previous forecast of 1.307 (US$0.765).

After taking into consideration these revised commodity price forecasts for 2020 and including the hedging contracts, Kelt is forecasting 2020 adjusted funds from operations of $225.0 million, down 4% from its previous forecast. In addition, Kelt has reduced its 2020 capital expenditure forecast from $235.0 million to $225.0 million, in part to reflect planned 2020 expenditures that were brought forward and incurred in 2019.

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 2019. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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

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

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

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

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

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

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

Non-GAAP financial measures

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

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

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, unless otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Cash provided by operating activities	**35,396**	63,656	-44	**162,488**	186,383	-13
Change in non-cash working capital	**11,045**	(16,623)	-166	**17,699**	(538)	-3,390
Funds from operations	**46,441**	47,033	-1	**180,187**	185,845	-3
Provision for potential credit losses	**-**	(128)	-100	**-**	(128)	-100
Settlement of decommissioning obligations	**214**	235	-9	**2,334**	1,122	108
Adjusted funds from operations	**46,655**	47,140	-1	**182,521**	186,839	-2

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

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

"Net bank debt" is equal to "bank debt, net of working capital". "Net bank debt" is calculated by adding the working capital deficiency to bank debt. The working capital deficiency is equal to total current assets net of total current liabilities. The Company uses a "net bank debt to annualized quarterly adjusted funds from operations ratio" as a benchmark on which management monitors the Company's capital structure and short-term financing requirements. Management believes that this ratio, which is a non-GAAP financial measure, provides investors with information to understand the Company's liquidity risk. The "net bank debt to annualized quarterly adjusted funds from operations ratio" is also indicative of the "debt to EBITDA" calculation used to determine the applicable margin for a quarter under the Company's Credit Facility agreement (though the calculation may not always be a precise match, it is representative).

Other KPI

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

"Finding, development and acquisition" ("FD&A") cost is the sum of capital expenditures incurred in the period and the change in future development capital ("FDC") required to develop reserves. FD&A cost per BOE is determined by dividing current period net reserve additions into the corresponding period's FD&A cost. Readers are cautioned that the aggregate of capital expenditures incurred in the year, comprised of exploration and development costs and acquisition costs, and the change in estimated FDC generally will not reflect total FD&A costs related to reserves additions in the year.

"Recycle ratio" is a measure for evaluating the effectiveness of a company's re-investment program. The ratio measures the efficiency of capital investment by comparing the operating netback per BOE to FD&A cost per BOE.

"Net asset value" is calculated by adding the present value of petroleum and natural gas reserves, undeveloped land value and proceeds from exercise of stock options, less the present value of decommissioning obligations and bank debt, net of working capital. "Net asset value per common share" is calculated by dividing the "Net Asset Value" by the diluted number of common shares outstanding. The calculation of proceeds from exercise of stock options and the diluted number of common shares outstanding only include stock options that are "in-the-money" based on the closing price of KEL common shares as at the calculation date. The diluted number of common shares outstanding includes common shares issuable upon conversion of the convertible debentures that are "in-the-money" based on the closing price of KEL common shares as at the calculation date.

ADDITIONAL INFORMATION

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

MANAGEMENT'S REPORT

The accompanying financial statements of Kelt Exploration Ltd. (the "Company") are the responsibility of management. The financial statements have been prepared by management in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain estimates that reflect management's best judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management has the overall responsibility for internal controls and maintains a system of internal controls over financial reporting that provides reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. This Committee, consisting of non-management directors, meets with management and independent auditors to ensure that each group is properly discharging its responsibilities and to discuss adequacy of internal controls, accounting policies and financial reporting matters. The Audit Committee has reviewed the financial statements and has reported thereon to the Board of Directors. The Board of Directors has approved the financial statements and authorized them for issuance to shareholders.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, has been engaged, as approved by the shareholders of the Company, to provide an independent audit opinion on the Company's financial statements. Their report, contained herein, outlines the nature of their audit and expresses an unqualified opinion on the financial statements.

[signed]

David J. Wilson
President and Chief Executive Officer
March 9, 2020

[signed]

Sadiq H. Lalani
Vice President and Chief Financial Officer
March 9, 2020

Independent auditor's report

To the Shareholders of Kelt Exploration Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kelt Exploration Ltd. and its subsidiary (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of profit (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information,

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other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ryan McKay.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 6, 2020

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019 AND DECEMBER 31, 2018

(CA$ thousands)	[Notes]	**December 31, 2019**	December 31, 2018
ASSETS			
Current assets			
Cash and cash equivalents		**8,365**	6,455
Accounts receivable and accrued sales	[13]	**44,972**	46,180
Prepaid expenses and deposits		**2,226**	1,668
Derivative financial instruments	[13]	**-**	3,247
Total current assets		**55,563**	57,550
Investment in securities	[13]	**5,600**	1,000
Exploration and evaluation assets	[5]	**73,891**	119,282
Property, plant and equipment	[6]	**1,470,411**	1,245,689
Total assets		**1,605,465**	1,423,521
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**76,072**	83,530
Derivative financial instruments	[13]	**2,305**	651
Deferred premium on flow-through shares		**1,346**	-
Decommissioning obligations	[9]	**2,094**	904
Financing liability	[10]	**771**	-
Lease liability	[11]	**1,055**	-
Total current liabilities		**83,643**	85,085
Bank debt	[7]	**300,000**	168,881
Convertible debentures	[8]	**82,789**	78,390
Decommissioning obligations	[9]	**157,929**	143,763
Deferred income tax liability	[14]	**56,429**	53,606
Lease liability	[11]	**1,613**	-
Total liabilities		**682,403**	529,725
SHAREHOLDERS' EQUITY			
Shareholders' capital	[12]	**1,137,121**	1,119,232
Reserve from common control transaction		**(57,668)**	(57,668)
Equity component of convertible debentures	[8]	**12,843**	12,843
Contributed surplus		**24,739**	19,713
Retained earnings (deficit)		**(193,973)**	(200,324)
Total shareholders' equity		**923,062**	893,796
Total liabilities and shareholders' equity		**1,605,465**	1,423,521
Commitments	[17]		

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

On behalf of the Board of Directors:

[signed] *[signed]*

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

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF PROFIT (LOSS) AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

		Year ended December 31	
(CA$ thousands, except per share amounts)	[Notes]	**2019**	2018
Revenue			
Petroleum and natural gas sales	[15]	**394,356**	389,277
Royalties		**(19,301)**	(30,701)
		375,055	358,576
Expenses			
Production		**100,384**	89,792
Transportation		**50,516**	38,646
Cost of purchases		**16,740**	21,616
Financing	[16]	**22,773**	17,195
General and administrative	[18]	**8,889**	8,224
Share based compensation	[12]	**6,859**	6,108
Exploration and evaluation	[5]	**5,055**	5,211
Depletion and depreciation	[6]	**156,396**	155,967
		367,612	342,759
Loss on derivative financial instruments	[13]	**(5,814)**	(3,304)
Foreign exchange gain (loss)		**(286)**	677
Unrealized gain on investment	[13]	**600**	-
Premium on flow-through shares	[12]	**-**	4,141
Gain on sale of assets	[4]	**6,902**	3,562
Other income		**562**	1,960
Profit before taxes		**9,407**	22,853
Deferred income tax expense	[14]	**(2,835)**	(14,699)
Profit and comprehensive income		**6,572**	8,154
Profit per common share			
Basic	[12]	**0.04**	0.04
Diluted	[12]	**0.04**	0.04

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

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

(CA$ thousands)	[Notes]	Shareholders' capital: Number of Shares (000s)	Shareholders' capital: Amount ($ thousands)	Reserve	Convertible debentures – equity portion	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2017		178,858	1,078,773	(57,668)	12,856	20,218	(208,478)	845,701
Profit and comprehensive income		-	-	-	-	-	8,154	8,154
Common shares issued, net of costs:								
Private placements	[12]	2,758	24,776	-	-	-	-	24,776
Premium on flow-through shares	[12]	-	(3,099)	-	-	-	-	(3,099)
Share issue costs, net of tax	[12]	-	(607)	-	-	-	-	(607)
Conversion of convertible debentures		16	89	-	(13)	-	-	76
Exercise of stock options	[12]	2,081	17,694	-	-	(5,007)	-	12,687
Vesting of restricted share units	[12]	290	1,606	-	-	(1,606)	-	-
Share based compensation	[12]	-	-	-	-	6,108	-	6,108
Balance at December 31, 2018		184,003	1,119,232	(57,668)	12,843	19,713	(200,324)	893,796
Initial adoption of IFRS 16	[3]	-	-	-	-	-	(221)	(221)
Profit and comprehensive income		-	-	-	-	-	6,572	6,572
Common shares issued, net of costs:								
Private placements	[12]	3,450	17,423	-	-	-	-	17,423
Premium on flow-through shares	[12]	-	(1,346)	-	-	-	-	(1,346)
Share issue costs, net of tax	[12]	-	(34)	-	-	-	-	(34)
Exercise of stock options	[12]	4	18	-	-	(5)	-	13
Vesting of restricted share units	[12]	329	1,828	-	-	(1,828)	-	-
Share based compensation	[12]	-	-	-	-	6,859	-	6,859
Balance at December 31, 2019		**187,786**	**1,137,121**	**(57,668)**	**12,843**	**24,739**	**(193,973)**	**923,062**

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

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

		Year ended December 31	
(CA$ thousands)	[Notes]	**2019**	2018
Operating activities			
Profit and comprehensive income		**6,572**	8,154
Items not affecting cash:			
Accretion	[16]	**7,393**	7,142
Share based compensation		**6,859**	6,108
Exploration and evaluation		**5,055**	5,211
Depletion and depreciation		**156,396**	155,967
Unrealized gain (loss) on derivatives	[13]	**4,902**	(2,596)
Unrealized gain on investment in securities		**(600)**	-
Unrealized (gain) loss on foreign exchange		**11**	(15)
Premium on flow-through shares		**-**	(4,141)
Gain on sale of assets		**(6,902)**	(3,562)
Deferred income tax expense		**2,835**	14,699
Settlement of decommissioning obligations	[9]	**(2,334)**	(1,122)
Change in non-cash operating working capital	[19]	**(17,699)**	538
Cash provided by operating activities		**162,488**	186,383
Financing activities			
Increase in bank debt	[7]	**131,119**	77,416
Increase in financing liability	[10]	**771**	-
Issue of common shares, net of costs	[12]	**17,377**	23,945
Proceeds on exercise of stock options	[12]	**13**	12,687
Repayment of lease liability principle		**(1,114)**	-
Cash provided by financing activities		**148,166**	114,048
Investing activities			
Exploration and evaluation assets		**(9,001)**	(44,283)
Property, plant and equipment		**(308,325)**	(248,425)
Property acquisitions	[4]	**(4,002)**	(2,860)
Property dispositions	[4]	**5,704**	10,070
Investment in securities	[13]	**(4,000)**	(1,000)
Change in non-cash investing working capital	[19]	**10,891**	(11,188)
Cash used in investing activities		**(308,733)**	(297,686)
Impact of foreign currency on cash balances		**(11)**	15
Net change in cash and cash equivalents		**1,910**	2,760
Cash and cash equivalents, beginning of year		**6,455**	3,695
Cash and cash equivalents, end of year		**8,365**	6,455

The accompanying notes form an integral part of these consolidated 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 and 5% convertible debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL" and "KEL.DB", respectively.

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

2. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated annual financial statements on March 6, 2020 for issue on March 9, 2020.

a) Statement of compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in the *CPA Canada Handbook - Accounting*. These consolidated annual 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 annual financial statements.

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 13 of these financial statements.

c) 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 discussed below.

Depletion, depreciation and reserves

The Company calculates depletion based on total proved reserves as determined in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH"). The process of determining reserves is complex. Significant judgments are based on available geological, geophysical, engineering, and economic data. These judgments are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation can be impacted by subjective decisions, new geological or production information and a changing environment. In addition, revisions to reserve estimates can arise from changes in forecast oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion. Reserves are used in measuring the fair value less costs of disposal ("FVLCD") of property, plant and equipment for impairment calculations and for determining the fair value of PP&E acquired in a business combination. Reserves also impact the Company's assessment of the commercial viability and technical feasibility of an exploration project and the decision to transfer exploration and evaluation assets to PP&E.

Exploration and evaluation assets

Judgment is required to determine the level at which E&E is assessed for impairment. For Kelt, the carrying value of E&E assets is assessed for overall impairment at the operating segment level and on a specific identification basis prior to transferring E&E assets to PP&E. The decision to transfer assets from E&E to PP&E requires judgment as it is based on estimated proved reserves, which are used, in part, to determine a project's technical feasibility and commercial viability. Refer to additional information regarding E&E assets in note 5 of these financial statements.

Determination of Cash Generating Units ("CGUs")

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. As at December 31, 2019, the Company has one CGU for its assets located in the province of British Columbia and one CGU for its assets located in the province of Alberta. Refer to specific information regarding the Company's CGUs in note 6 of the consolidated financial statements.

Impairment of non-financial assets

Significant judgment is required to assess the Company's non-financial assets, namely E&E and PP&E, for impairment or potential reversals of previously recorded impairment. Management must first determine whether indicators of impairment exist that suggest the carrying value may not be recoverable through the asset's continued use or sale. In addition, judgment is required to assess whether a previously recognized impairment for an asset no longer exists or has decreased.

Significant judgment and estimates are required to calculate the recoverable amount of PP&E in an impairment test. Management calculates the recoverable amount of each CGU based on its FVLCD, using an after-tax discounted cash flow analysis derived from proved plus probable reserves. Reserve estimates and expected future cash flows from production of reserves are subject to measurement uncertainty as discussed above and are subject to variability due to changes in forecasted commodity prices. In addition, the present value of forecast future cash flows is highly sensitive to the discount rate. Judgment is required to determine an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Refer to note 6 of the consolidated annual financial statements for a discussion of the specific estimates and assumptions applied in the impairment test performed at December 31, 2019.

Business combinations

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require significant judgment and include estimates of reserves acquired, forecast benchmark commodity prices and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain from a bargain purchase) in the acquisition equation. Future profit (loss) can be affected as a result of changes in future depletion and depreciation or impairment.

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and gas wells and their associated production facilities and infrastructure. In most instances, dismantling of assets and remediation occurs many years into the future. The value of the ultimate decommissioning obligation can fluctuate in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, changes to the risk-free discount rate and changes to inflation. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations. Judgments include the most appropriate discount rate to use, which management has determined to be a risk-free rate. Key assumptions are disclosed in note 9 of these financial statements.

Kelt estimates abandonment and reclamation costs based on a combination of publically available industry benchmarks and internal site specific information. For producing wells and facilities, the expected timing of settlement is estimated based on the proved plus probable period to abandonment for each depletable area, as per the independent reserve report. For non-producing wells, the expected timing of settlement is estimated to be half of the period applied to producing wells in that field, unless the timing to abandon and reclaim a specific well site or facility is known based on budgeted expenditures.

Deferred income taxes

The Company follows the liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, deferred income taxes are subject to measurement uncertainty. The provision for deferred income taxes also includes the following significant judgments of management:

• Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. The deferred tax liability reported in the Consolidated Statement of Financial Position is presented net of offsetting deferred income tax assets. The Company's non-capital losses expire in years 2023 to 2039. Management believes that Kelt and Kelt LNG will have sufficient taxable income in the future in order to utilize the non-capital losses and has concluded that recognition of the associated deferred income tax assets is appropriate;

• Classification of intangible drilling and completion costs as Canadian exploration expenses ("CEE") or Canadian development expenses ("CDE") – CEE is deductible at a rate of 100% per year, whereas CDE may be deducted on a declining basis at 30%-45% per year. Accordingly, the allocation of resource deductions will impact the period in which Kelt may become taxable in the future. In addition, the designation of certain expenditures as CEE and/or CDE impacts the Company's ability to satisfy its flow-through share obligations; and

• Recognition of unrecognized deferred income tax asset – per IAS 12, deferred income taxes are not initially recognized on transactions that are not business combinations. The Company did not initially recognize a deferred income tax asset of $14.4 million that arose on the spin-out certain assets from Celtic Exploration Ltd. ("Celtic") at Kelt's inception on February 26, 2013. The initially unrecognized deferred tax asset is now being amortized at a rate of 2.5% per quarter, which management believes is a reasonable estimate as it reflects the weighted average depletion rate of the properties at the time of the spin-out and is aligned with Kelt's corporate average depletion rate.

Share based compensation

The Company uses the fair value method of accounting for its long-term incentive plans, which include an Incentive Stock Option Plan and a Restricted Share Unit Plan. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value.

For stock options, the Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in note 12 of these financial statements.

The fair value of restricted share units is estimated based on the volume weighted average trading price ("VWAP") on the TSX over three trading days immediately prior to the date of grant. Judgment is also required to estimate the number of restricted share units that will ultimately vest, in other words, the rate of forfeiture. The assumptions used by the Company are discussed in note 12 of these financial statements.

Flow-through shares

There is no IFRS guidance that specifically addresses accounting for flow-through shares, therefore the Company is required to develop an accounting policy. Consistent with prior years, and as set-forth in note 3, the Company has applied the residual method. Under this method, judgement is required to determine of the fair value of ordinary shares. Typically, it is based on the share price at the time the parties agree to the transaction. In situations where flow-through shares are issued concurrent with an ordinary common share offering, the difference in subscription prices is used to value the premium. Otherwise, the Company uses the VWAP of KEL common shares for the five trading days immediately preceding the date of the binding agreement, to value the ordinary common shares.

Judgment is also required to determine when the Company has fulfilled its obligation to pass on the tax deduction to investors, at which time, the premium on flow-through shares is recognized in income. The Company deems the obligation to have been fulfilled in the period that eligible expenditures are incurred, regardless of the period in which the tax deductions are legally renounced.

Leases

The Company applies judgement in reviewing each of its contractual arrangements to determine whether the lease falls within the scope of IFRS 16. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

The measurement of right-of-use ("ROU") assets and lease liabilities are subject to management's judgement of the applicable incremental borrowing rate when the rate implicit in a lease is not readily determinable. Applicable incremental borrowing rates are based on management's judgements of the economic environment, term, the underlying risk inherent to the asset (which may vary due to changes in the market conditions) and the expected lease term.

3. SIGNIFICANT AND NEW ACCOUNTING POLICIES

Joint interests

A portion of the Company's exploration, development and production activities is conducted jointly with others through unincorporated joint ventures. These financial statements reflect only the Company's proportionate interest of these jointly controlled assets and the proportionate share of the relevant revenue and related costs.

Foreign currency translation

The financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Transactions in U.S. dollars are initially recorded at the exchange rate in effect at the time of the transactions. Monetary assets and liabilities denominated in U.S. dollars are translated to Canadian dollars using the closing exchange rate at the Consolidated Statement of Financial Position date. The resulting exchange rate differences are included in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss).

Business combinations

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). Transaction costs associated with the acquisition are expensed when incurred.

Principles of consolidation

As at December 31, 2019, the Company has one wholly-owned subsidiary, Kelt LNG. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of Kelt and Kelt LNG. The financial statements of Kelt LNG are prepared for the same reporting period as Kelt, using uniform accounting policies. Subsidiaries are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation

Assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount and fair value less costs of disposal, and depletion & depreciation ceases at the time this designation is made.

If a non-current asset or disposal group has been classified as held for sale, but subsequently ceases to meet the criteria to be classified as held for sale, the Company ceases to classify the asset or disposal group as held for sale. Non-current assets and disposal groups that cease to be classified as held for sale are measured at the lower of carrying amount before the asset or disposal group was classified as held for sale (adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset or disposal group not been classified as held for sale) and its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount is recognized in profit or loss in the period in which the asset ceases to be classified as held for sale.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) Financial assets and liabilities at fair value through profit or loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). Gains and losses arising from changes in fair value are presented in profit or loss in the period in which they arise.

Financial assets and liabilities at fair value through profit or loss are classified as current in the Consolidated Statement of Financial Position, except for any portion expected to be realized or paid beyond twelve months of the Consolidated Statement of Financial Position date.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of cash and cash equivalents, accounts receivable and deposits. They are included in current assets due to their short-term nature.

Loans and receivables are initially recognized at the amount expected to be received less any required discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

iii) Financial liabilities at amortized cost

Financial liabilities at amortized cost include accounts payable and bank debt. Accounts payable are initially recognized at the amount required to be paid less any required discount to reduce the payables to fair value. Bank debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

iv) Derivative financial instruments

The Company may use derivative financial instruments for risk management purposes. All derivatives have been classified at fair value through profit or loss. Financial instruments are included on the Consolidated Statement of Financial Position within derivative financial instruments and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement of derivatives are included in profit or loss in the period in which they arise.

Investments in securities

Investments in securities are classified as fair value through profit or loss. Investments in the securities of private entities are carried at fair value, which is estimated using values based on equity issuances and other indications of value (level three fair value hierarchy estimates).

Exploration and evaluation assets (“E&E”) and property, plant and equipment (“PP&E”)

i) Recognition and measurement

Pre-license costs

Costs incurred prior to acquiring the legal rights to explore an area are charged directly to profit or loss as exploration expense in the period incurred. The Company did not incur pre-license costs in the current or prior period.

Exploration and evaluation assets

All costs directly associated with the exploration and evaluation of petroleum and natural gas reserves are initially capitalized. Exploration and evaluation costs include unproved property acquisition costs such as undeveloped land and mineral leases, geological and geophysical costs, and costs associated with exploratory drilling and appraisals. Such costs are not subject to depletion or depreciation until they are reclassified from E&E to PP&E.

The costs are accumulated by exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be achieved when a sufficient amount of economically recoverable reserves relative to the estimated potential resources is estimated to exist, combined with available infrastructure to support commercial development. Prior to being transferred to PP&E, E&E costs are first tested for impairment. If proved/probable reserves have not been established through the completion of exploration and evaluation activities, and there are no future plans for activity in that exploration area, then the costs are determined to be impaired and the amounts are charged to the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss).

Property, plant and equipment

Property, plant, and equipment primarily consists of petroleum and natural gas development and production assets, and is measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, estimated decommissioning costs and transfers from E&E. In addition, borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use.

ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing components of equipment are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed as incurred. Such capitalized amounts generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves. The carrying amount of any replaced or sold component is derecognized.

The gain or loss from the divestitures of property, plant and equipment is recognized in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). In addition, risk-sharing agreements in which the Company cedes a portion of its working interest to a third-party are generally considered to be disposals of property, plant and equipment, potentially resulting in a gain or loss on disposition.

Exchanges of property, plant and equipment are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Unless the fair value of the asset received is more clearly evident, the cost of the acquired asset is measured at the fair value of the asset given up. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. The gain or loss on derecognition of the asset given up is recognized in profit or loss.

Property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in profit or loss in the period in which the item is derecognized.

iii) Depletion and depreciation

Development and production costs are accumulated on a geotechnical area basis ("depletion units"). The net carrying value of each depletion unit is depleted using the unit of production method by reference to the ratio of production in the year to the related proved reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are reviewed by independent reserve engineers at least annually. Where significant components of development and production ("D&P") assets have different useful lives, they are accounted for and depreciated as separate items of property, plant and equipment.

iv) Major maintenance expenditures

The costs of major maintenance associated with turnaround activities that benefit future years of operations are capitalized and depreciated over the period to the next major maintenance turnaround. All other maintenance costs are expensed as incurred.

Impairment of assets

Non-financial assets

The Company reviews the carrying value of its non-financial assets, including PP&E and E&E, on a quarterly basis to determine whether there is any indication of impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its FVLCD. E&E assets are assessed for overall impairment at the operating segment level and individual E&E assets are assessed for impairment prior to transferring to PP&E.

FVLCD is defined as the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The Company calculates FVLCD by reference to the after-tax future cash flows expected to be derived from production of proved plus probable reserves, less estimated selling costs. The estimated after-tax future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Financial assets

A financial asset measured at amortized cost is assessed at each reporting date using an expected credit loss ("ECL") model to determine whether it is impaired. The Company applies the simplified approach to providing for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Company uses a combination of historical and forward looking information to determine the appropriate loss allowance provision. ECLs are a probability-weighted estimate of all possible default events over the expected life of the financial asset which is based on credit quality since initial recognition.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

Leases

The Company recognizes a ROU asset and corresponding liability on the balance sheet at the date when the leased asset is available for use. Interest expense on the lease liability is recognized over the lease term with an increase to the underlying lease liability. The ROU asset is depreciated over the shorter of the asset's useful life and lease term using the straight line method of depreciation.

ROU assets and lease liabilities are initially measured on a present value basis. Lease liabilities are measured as the net present value of lease payments, less any lease incentives. Lease payments may include fixed lease payments, variable lease payments based on an index or rate, amounts expected to be payable under residual value guarantees, exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments related to early lease termination penalties. ROU assets are measured at cost comprising of the initial measurement of the lease liability, any lease payments made at, or before, the commencement date and any initial direct costs and asset restoration costs. The lease liability and ROU asset is discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily determinable.

The Company uses a single discount rate for a portfolio of leases with similar characteristics. Leases with lease terms under 12 months and leases where the underlying asset is of low value are not recognized on the balance sheet and are accounted as an expense as incurred.

Provisions and contingencies

Provisions are recognized when the Company has a present obligation as a result of a past event, if it is probable that an outflow of resources will be required and if a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the best estimate of discounted future cash outflows.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. An obligation is accrued for the estimated cost of site restoration and the corresponding amount is included in the cost of the assets to which the obligations relate. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Consolidated Statement of Financial Position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation, changes to the expected timing of site restoration, as well as any changes in the risk-free discount rate and inflation rate. Increases in the provision due to the passage of time are recognized as a financing expense in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision is established.

Contingencies

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Company. When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow.

Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the financial statements.

Convertible debentures

The Debentures are a non-derivative financial instrument that creates a financial liability of the entity and grants an option to the holder of the instrument to convert it into common shares of the Company. The liability component of the Debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially, net of deferred income taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the Debentures are reclassified to shareholders' capital on conversion to common shares.

Income taxes

Total income tax expense is composed of both current and deferred income taxes.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company follows the liability method of accounting for income taxes. Under this method, deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are allocated between income and equity depending on the nature of the account balance or transaction that gives rise to the temporary difference.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits only if it is probable that sufficient future taxable income will be available to utilize those temporary differences and losses. Such deferred tax liabilities and assets are not recognized if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) in the period that the change occurs.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. Deferred tax assets and liabilities are recorded on a non-discounted basis.

Revenue recognition

Kelt recognizes revenue at a point in time when control of the product has been transferred to the customer and performance obligations have been satisfied. This is generally met when the customer obtains legal title to the product and physical delivery at a delivery point has taken place. Revenue is measured based on the consideration specified in the contracts the Company has with its customers.

The Company applies a practical expedient and does not disclose quantitative or qualitative information on remaining performance obligations that have an original duration of one year or less. Kelt also applies a practical expedient that allows any incremental costs of obtaining contracts with customer to be recognized as an expense when incurred rather than being capitalized.

Kelt evaluates its arrangements with 3rd parties and partners to determine if a principal or agent relationship exists. In making this evaluation, management considers if it maintains control of the product, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If management determines that the Company does not maintain control of the product, then revenue is recognized net of fees, if any, realized by the party from the transaction.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Financing expense

Financing expenses include interest expense on borrowings and accretion of the discount on decommissioning obligations due to the passage of time.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time required to complete and prepare the assets for their intended use. All other borrowing costs are recognized in financing expense using the effective interest method.

Share based compensation

The Company has an Incentive Stock Option Plan and Restricted Share Unit Plan (collectively, the “Plans”). Pursuant to the Plans, stock options and restricted share units (“RSUs”) may be granted to officers, directors, employees and certain consultants, which call for settlement through the issuance of new common shares of the Company.

The Company applies the fair value method of accounting for stock options, whereby each tranche in an award is valued separately on the grant date using the Black-Scholes option pricing model. The fair value of RSUs is calculated based on the volume weighted average trading price over three trading days immediately prior to the date of grant. The total fair value associated the stock options and RSUs is recognized over the service period using graded vesting, as share based compensation expense with a corresponding increase to contributed surplus. An estimated forfeiture rate is applied against the total fair value on the grant date and is adjusted to reflect the actual number of options that ultimately vest each period. The consideration received by the Company on the exercise of stock options is recorded as an increase in shareholders’ capital, together with the corresponding amounts previously recognized in contributed surplus.

Flow-through shares

Canadian tax legislation permits entities meeting specified criteria to issue securities to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity (herein referred to as “flow-through shares”). The Company uses the residual method to account for flow-through shares. Under this method, the proceeds from the issuance are allocated between i) the proceeds of the offering of shares, and ii) the renunciation of tax deductions. At the time the flow-through shares are issued: i) shareholders’ capital is credited based on the fair value of ordinary common shares, and ii) the tax deductions to be renounced are deferred and presented a liability in the Consolidated Statement of Financial Position, at an amount equal to the residual difference between the fair value of the Company’s ordinary common shares relative to the amount the investor pays for the flow-through shares. At the time the Company fulfills its obligation to pass on the tax deductions to investors, which is deemed to occur when the eligible expenditures are incurred, the liability (deferred premium) is drawn down in proportion to the eligible expenditures incurred in the period and the premium on flow-through shares is recognized as income in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss). Concurrently, a deferred income tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of the eligible expenditures capitalized as an asset for accounting purposes and a tax base of nil, because the deduction has been renounced to investors.

Per share amounts

Basic profit (loss) per common share is calculated by dividing profit (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Common shares issued as part of the consideration transferred in a business combination or common control transaction are included in the weighted average number of common shares starting from the acquisition date.

Diluted profit (loss) per common share is calculated giving effect to the potential dilution that would occur if all outstanding "in-the-money" stock options were exercised or converted to common shares. The weighted average number of common shares outstanding during the period is adjusted by the incremental number of shares calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the volume weighted average market price during the period.

Government grants

Government grants are recognized when there is a reasonable expectation that the conditions attached to the grants have been met, and that the grants will be received. Government grants primarily related to asset expenditures will be presented as a reduction to the capital cost of the asset the grant relates to. Government grants primarily related to income will be presented in the Consolidated Statement of Profit or Loss, in the period in which the expenditures are incurred, or the related income is earned.

New Accounting Policies

The Company adopted IFRS 16 *Leases* ("IFRS 16") with a date of initial application of January 1, 2019. IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and other related interpretations. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease arrangements previously recognized as an operating lease under IAS 17. On adoption, the Company's lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019 of 5.9%. Right-of-use assets were measured at an amount equal to the lease liability or, if IFRS 16 had been applied from the lease commencement date, using the Company's incremental borrowing rate on January 1, 2019.

The Company used the modified retrospective approach to adopt the new standard, which does not require restatement of prior period financial information as it recognizes any cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion depreciation and amortization, and finance expense, and decreases to production and general and administrative expenses.

The financial impact of initially applying the standard resulted in an increase of $2.7 million in right-of-use assets (included in property, plant and equipment, note 6), an increase of $2.9 million in lease liability (note 11) and a $0.2 million adjustment to retained earnings.

On adoption, the Company elected to use the following practical expedients:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Use of hindsight in determining lease terms; and
- Apply the short term lease exemption for leases with lease terms less than one year.

The following table provides a reconciliation of the commitments as at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

	Total
Operating lease - office buildings	**4,544**
Operating lease - vehicles	**946**
Total operating leases included in commitments as at December 31, 2018	**5,490**
Less:	
Non-Lease components	**(2,646)**
Add:	
Finance lease liabilities not previously recognized in future commitments	**348**
Undiscounted lease liability as at January 1, 2019	**3,192**
Impact of discounting	**(304)**
Present value of lease liability as at January 1, 2019	**2,888**

4. PROPERTY ACQUISITIONS AND DISPOSITIONS

The following table summarizes the fair value of net assets acquired pursuant to property acquisitions during the year ended December 31, 2019 and the prior year ended December 31, 2018:

Acquisitions (1)	**December 31, 2019**	December 31, 2018
Exploration and evaluation assets	**6,969**	2,976
Property, plant and equipment	**828**	496
Decommissioning obligations	**(614)**	(612)
Total assets (liabilities) acquired	**7,183**	2,860
Consideration (1)		
Cash consideration	**(4,002)**	(2,860)
Non-cash consideration	**(3,181)**	-
Total consideration	**(7,183)**	(2,860)

(1) Net assets acquired include the impact of non-cash asset swap transactions in which $3.2 million of exploration and evaluation assets were acquired for assets with a net book value of $671k and a fair value of $3.2 million.

During the year ended December 31, 2019, the Company acquired undeveloped land of $7.0 million, developed land of $0.8 million, and decommissioning obligations of $0.6 million. The net assets acquired and the liabilities assumed were recorded at fair value of $7.2 million, and included cash consideration of $4.0 million and non-cash swap transactions of $3.2 million.

During the year ended December 31, 2019, the Company disposed of certain non-core oil and gas assets which mainly included undeveloped land of $2.9 million and decommissioning obligations of $0.9 million. Consideration received was measured at fair value and included cash consideration of $5.7 million and non-cash swap transactions of $3.2 million, resulting in a gain on sale of $6.9 million.

The table below summarizes the aggregate proceeds received and carrying values of the assets and associated decommissioning obligations disposed during year ended December 31, 2019 and December 31, 2018:

Dispositions [1]	**December 31, 2019**	December 31, 2018
Exploration and evaluation assets	**(2,900)**	(122)
Property, plant and equipment	**28**	(8,914)
Decommissioning obligations	**889**	2,528
Carrying value of net (assets) liabilities disposed	**(1,983)**	(6,508)
Consideration [1]		
Cash consideration, after closing adjustments	**5,704**	10,070
Non-cash consideration	**3,181**	-
Total consideration	**8,885**	10,070
Gain on sale of assets	**6,902**	3,562

(1) Net assets disposed include the impact of non-cash asset swap transactions in which exploration and evaluation assets with a net book value of $671k and a fair value of $3.2 million were disposed for assets acquired with a fair value of $3.2 million.

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:

	December 31, 2019	December 31, 2018
Balance, beginning of year	**119,282**	123,349
Additions	**9,001**	44,283
Property acquisitions [note 4]	**6,969**	2,976
Property dispositions [note 4]	**(2,900)**	(122)
Transfers to property, plant and equipment	**(53,406)**	(45,993)
Exploration and evaluation expense	**(5,055)**	(5,211)
Balance, end of year	**73,891**	119,282

The Company concluded that there are no indicators of potential impairment of its E&E assets at December 31, 2019.

6. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**December 31, 2019**	December 31, 2018
Development and production ("D&P") assets	**1,467,577**	1,245,178
Right-of-use ("ROU") assets	**2,338**	-
Corporate assets	**496**	511
Total net carrying value of property, plant and equipment	**1,470,411**	1,245,689

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2017	1,613,129	3,267	-	1,616,396
Additions	247,663	762	-	248,425
Property acquisitions [note 4]	496	-	-	496
Property dispositions [note 4]	(36,222)	-	-	(36,222)
Decommissioning costs	7,584	-	-	7,584
Transfers from E&E	45,993	-	-	45,993
Balance at December 31, 2018	**1,878,643**	**4,029**	**-**	**1,882,672**
Initial adoption of IFRS 16 [note 3]	**-**	**-**	**2,666**	**2,666**
Additions	**307,554**	**771**	**953**	**309,278**
Property acquisitions [note 4]	**828**	**-**	**-**	**828**
Property dispositions [note 4]	**28**	**-**	**(118)**	**(90)**
Decommissioning costs	**14,971**	**-**	**-**	**14,971**
Transfers from E&E	**53,406**	**-**	**-**	**53,406**
Balance at December 31, 2019	**2,255,430**	**4,800**	**3,501**	**2,263,731**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2017	505,414	2,910	-	508,324
Depletion and depreciation expense	144,691	608	-	145,299
Property dispositions [note 4]	(27,308)	-	-	(27,308)
Impairments	10,668	-	-	10,668
Balance at December 31, 2018	**633,465**	**3,518**	**-**	**636,983**
Depletion and depreciation expense	**154,388**	**786**	**1,222**	**156,396**
Dispositions	**-**	**-**	**(59)**	**(59)**
Balance at December 31, 2019	**787,853**	**4,304**	**1,163**	**793,320**

There were no borrowing costs capitalized in the current or prior year. Future capital costs required to develop proved reserves in the amount of $1,378.9 million (December 31, 2018 – $871.5 million) are included in the depletion calculation for development and production assets. At December 31, 2019, the balance of assets under construction not subject to depreciation or depletion was nil (December 31, 2018 – $66.3 million).

Due to a decline in forecasted commodity prices in 2019, an impairment test was conducted over all Kelt's CGUs; however no impairment was recognized for the Company's CGUs as the estimated recoverable amount of Kelt's two CGUs significantly exceeded its carrying value. In 2018, an impairment of $10.7 million (before tax) was recognized, of which $7.7 related to a non-core natural gas asset, and $3.0 million related to a non-core asset which was sold in the third quarter of 2018.

Recoverable amounts for each CGU were estimated based on FVLCD methodology which is calculated using the present value of the CGUs' expected future cash flows (after-tax). The cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator, Sproule Associates Limited ("Sproule") as of December 31, 2019. The projected cash flows used in the FVLCD calculation reflect market assessments of key assumptions as at December 31, 2019, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates (Level 3 fair value inputs). Cash flow forecasts are also based on Sproule's evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Future cash flow estimates are discounted using after-tax risk-adjusted discount rates. The after-tax discount rates applied in the impairment calculation as at December 31, 2019 was 10.5% and was determined based on the risks specific to the assets in the CGUs.

Given the significant cushion between the carrying value and the recoverable amounts in the Company's CGUs, a sensitivity analysis did not have an impact on the conclusions from the impairment calculation, being that a 1% increase (decrease) in the discount rate or 5% decrease (increase) in the forecast combined average realized price would not trigger an impairment for those CGUs as at December 31, 2019.

Forecast future prices used in the impairment evaluations as at December 31, 2019 and December 31, 2018, reflect the benchmark prices set-forth in the tables below, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

As at December 31, 2019	**2020**	**2021**	**2022**	**2023**	**2024[(1)]**
WTI Cushing Oklahoma (US$/bbl)	**60.25**	**63.11**	**66.02**	**67.64**	**69.16**
Canadian Light Sweet 40 API ($/bbl)	**71.58**	**75.33**	**77.51**	**79.77**	**81.60**
NYMEX Henry Hub (US$/MMBtu)	**2.57**	**2.79**	**2.99**	**3.15**	**3.22**
AECO-C Spot ($/MMBtu)	**2.05**	**2.32**	**2.60**	**2.74**	**2.82**
Exchange rate (CA$/US$)	**1.3158**	**1.2987**	**1.2500**	**1.2500**	**1.2500**

(1) Prices escalate at 2-3% after 2024

As at December 31, 2018	**2019**	**2020**	**2021**	**2022**	**2023[(1)]**
WTI Cushing Oklahoma (US$/bbl)	**58.44**	**63.75**	**67.28**	**70.50**	**73.54**
Canadian Light Sweet 40 API ($/bbl)	**66.93**	**74.99**	**79.71**	**82.90**	**86.33**
NYMEX Henry Hub (US$/MMBtu)	**3.00**	**3.14**	**3.36**	**3.53**	**3.68**
AECO-C Spot ($/MMBtu)	**1.85**	**2.28**	**2.68**	**2.99**	**3.21**
Exchange rate (CA$/US$)	**1.2987**	**1.2500**	**1.2500**	**1.2500**	**1.2500**

(1) Prices escalate at 2% after 2025 and between 2.0%-5.0% in years 2024 and 2025

7. BANK DEBT

	December 31, 2019	December 31, 2018
Bankers' acceptances	**300,000**	170,000
Unamortized financing fees	**-**	(1,119)
Bank debt	**300,000**	168,881

The Company has a revolving committed term credit facility ("the Credit Facility") with a syndicate of financial institutions. As at December 31, 2019, the authorized borrowing amount available under the Credit Facility was $350 million, an increase of $100 million from $250 million in the prior year. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

The Credit Facility is subject to semi-annual borrowing base reviews, occurring approximately in April and October of each year. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

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

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

The following table reconciles movements in the balance of bank debt during the year:

	December 31, 2019
Bank debt balance, beginning of year	**168,881**
Increase in bank debt	**130,000**
Decrease in unamortized financing fees	**95**
Increase in prepaid interest on bankers acceptances	**1,024**
Bank debt movement	**131,119**
Bank debt balance, end of year	**300,000**

8. CONVERTIBLE DEBENTURES

	Number of convertible debentures	Liability component ($ thousands)	Equity Component ($ thousands)
Balance at December 31, 2017	90,000	74,517	12,856
Conversion of convertible debentures to equity	(90)	(76)	(13)
Accretion of discount	-	3,949	-
Balance at December 31, 2018	**89,910**	**78,390**	**12,843**
Accretion of discount	**-**	**4,399**	**-**
Balance at December 31, 2019	**89,910**	**82,789**	**12,843**

The Company has $89.9 million principal amount of convertible unsecured subordinated debentures outstanding as at December 31, 2019. The Debentures mature on May 31, 2021 (the "Maturity Date") and bear interest at 5.0% per annum payable semi-annually on May 31st and November 30th. At the holder's option, the Debentures may be converted into common shares of the Company at any time prior to the close of business on the earlier of the business day immediately preceding (i) the Maturity Date, (ii) if called for redemption, the date fixed for redemption by the Company, or (iii) if called for repurchase in the event of a change of control, the payment date, at a conversion price of $5.50 per share (the "Conversion Price").

The Debentures are redeemable by the Company after May 31, 2019 and prior to May 31, 2020 at a redemption price equal to their principal amount plus accrued and unpaid interest provided that the volume weighted average trading price of the common shares on the TSX for the 20 consecutive trading days ending five trading days (the "Current Market Price") prior to the date on which notice of redemption is provided is at least 125% of the Conversion Price. On or after May 31, 2020 and prior to the Maturity Date, the Debentures may be redeemed by the Company at a redemption price equal to their principal amount plus accrued and unpaid interest.

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

Accretion of the liability component and accrued interest payable on the Debentures are included in financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) (note 16). At December 31, 2019, the fair value of the Debentures was $102.5 million (note 13).

9. DECOMMISSIONING OBLIGATIONS

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

	December 31, 2019	December 31, 2018
Balance, beginning of year	**144,667**	136,928
Obligations incurred	**4,995**	8,244
Obligations acquired [note 4]	**614**	612
Obligations disposed [note 4]	**(889)**	(2,528)
Obligations settled	**(2,334)**	(1,122)
Changes in discount rate	**21,373**	4,786
Changes in inflation rate	**(12,868)**	-
Revisions to estimates	**1,471**	(5,446)
Accretion expense	**2,994**	3,193
Balance, end of year	**160,023**	144,667
Decommissioning obligations – current	**2,094**	904
Decommissioning obligations – non-current	**157,929**	143,763
Key assumptions		
Risk free rate	**1.8%**	2.2%
Inflation rate	**1.8%**	2.0%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2019, the undiscounted amount of the estimated cash flows required to settle the obligation is $160.0 million (December 31, 2018 – $153.4 million), and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.8%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $291.2 million at December 31, 2019 (December 31, 2018 – $303.1 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

Accretion of the decommissioning obligation due to the passage of time is presented within financing expenses in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) (note 16).

10. FINANCING LIABILITY

	December 31, 2019
Balance, beginning of year	**-**
Additions	**810**
Payments	**(143)**
Interest expense	**104**
Balance, end of year	**771**

During the second quarter of 2019, Kelt entered into a sale and financing arrangement of a compressor with a third party for $0.8 million under a 18 month financing term where Kelt retains an option to re-purchase the compressor at the end of the lease term.

In 2019, Kelt entered into an agreement with a third party whereby Kelt will construct a 16-inch gas pipeline from its Inga 2-10 facility to the a gas processing facility, with ownership of the pipeline being two-thirds Kelt. Once the construction is complete, the third party will reimburse Kelt the full amount of the pipeline costs, with Kelt's proportionate ownership share of the funds received being recorded as a financing liability. In return for the financing, Kelt has agreed to make fixed annual payments over a 10 year period, as repayment for its share of the cost of the pipeline. The annual payments to the third party over ten years are representative of payments that would have been required if Kelt did not take an ownership interest in the pipeline but instead entered into a take-or-pay arrangement to deliver gas through the pipeline as a third party.

11. LEASE LIABILITY

	December 31, 2019
Balance, beginning of year [note 3]	**2,888**
Additions	**953**
Disposals	**(59)**
Interest expense	**165**
Lease payments	**(1,279)**
Balance, end of year	**2,668**
Lease liability – current	**1,055**
Lease liability – non-current	**1,613**

The Company has lease liabilities for contracts related to drilling rigs, office space, field equipment, surface leases, and vehicle leases. The weighted average discount rate for the year ended December 31, 2019 was 5.9 percent. Payments under the Company's short term leases were $10.5 million for 2019, primarily related to short term drilling rig leases.

12. 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 December 31, 2019 (December 31, 2018 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2017	178,858	1,078,773
Issued for cash through common share offerings	2,758	24,776
Deferred premium on flow-through shares	-	(3,099)
Conversion of convertible debentures to common shares	16	76
Equity component due to conversion of convertible debentures	-	13
Issued for cash on exercise of stock options	2,081	12,687
Transfer from contributed surplus on exercise of stock options	-	5,007
Released upon vesting of restricted share units	290	1,606
Share issue costs, net of deferred taxes ($224)	-	(607)
Balance at December 31, 2018	**184,003**	**1,119,232**

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

Flow-through common shares

Canadian tax legislation permits entities meeting specified criteria to issue flow-through common shares securities ("FTS") to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity. The table below summarizes flow-through common shares ("FTS") issued during the year ended December 31, 2019 and 2018, and the cumulative amount of qualifying expenditures incurred over the expenditure periods.

(CA$ thousands, except as otherwise indicated)					Eligible Expenditures [1]			Expenditure Period End and Effective date of Renunciation
						As at December 31, 2019		
Closing Dates	# of FTS	Price per FTS	Gross Proceeds	Deferred Premium	Type	Incurred	Remaining	
April 27, 2018, April 30, 2018	2.348 million	$8.85	20,778	2,324	CDE	20,778	-	December 31, 2018
April 27, 2018, April 30, 2018	0.410 million	$9.75	3,998	775	CEE	3,998	-	December 31, 2018
December 20, 2019	**3.450 million**	**$5.05**	**17,423**	**1,346**	**CDE**	**-**	**17,423**	**April 30, 2020**

(1) Pursuant to the provisions of the *Income Tax Act* (Canada), the Company has incurred eligible Canadian development expenses ("CDE") or Canadian exploration expenses ("CEE") as required under the respective subscription agreements.

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2017	9,894	6.51
Granted	2,590	5.29
Exercised [1]	(2,081)	6.10
Forfeited	(247)	6.94
Expired	(353)	8.42
Balance at December 31, 2018	**9,803**	**6.20**

	Number of Options (000s)	Average Exercise Price ($/share)
Granted	**2,305**	**2.92**
Exercised [(1)]	**(4)**	**3.25**
Forfeited	**(227)**	**5.66**
Expired	**(1,862)**	**9.96**
Balance at December 31, 2019	**10,015**	**4.76**

(1) The weighted average share price on the date stock options were exercised during the year ended December 31, 2019 was $5.27 per common share ($7.74 per common share on average during the year ended December 31, 2018).

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:

	Year ended December 31	
	2019	2018
Risk free interest rate	**1.3%**	2.2%
Expected life (years)	**3.5**	3.4
Expected volatility [(1)]	**48.7%**	48.2%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.5%**	4.9%
Fair value of options granted during the year ($/share)	**1.06**	1.94

(1) The expected volatility for options granted is estimated based on Kelt's historical volatility over the expected life.

The following table summarizes information regarding stock options outstanding at December 31, 2019:

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	2,069	4.6	2.77	-	-
$3.51 to $6.50	7,174	2.5	5.02	4,966	4.99
$6.51 to $9.50	772	2.6	7.66	435	7.62
Total	**10,015**	**2.9**	**4.76**	**5,401**	**5.20**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2017	793
Granted	625
Released upon vesting	(290)
Forfeited	(31)
Balance at December 31, 2018	**1,097**

	Number of RSUs (000s)
Granted	**144**
Released upon vesting	**(329)**
Forfeited	**(47)**
Balance at December 31, 2019	**865**

Share based compensation expense

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

	Year ended December 31	
	2019	2018
Stock options	**4,152**	3,964
Restricted share units	**2,707**	2,144
Share base compensation expense	**6,859**	6,108

Per share amounts

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

	Year ended December 31	
(000s of common shares)	**2019**	2018
Weighted average common shares outstanding, basic	**184,302**	182,576
Effect of stock options and RSUs	**644**	1,817
Effect of convertible debentures	**-**	-
Weighted average common shares outstanding, diluted	**184,946**	184,393

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit per common share. For the year ended December 31, 2019, the company included the effect of stock options and RSUs in calculating the diluted profit or less per common share however, the effect was negligible. The common shares issuable on conversion of the Debentures were determined to be anti-dilutive for the year ended December 31, 2019.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

i) the contracts are not entered into for speculative purposes;
ii) the total notional quantity hedged, at the time of entering into the contract, does not exceed 65% of future forecasted average daily production; and

iii) the contracted term does not exceed 36 months.

Commodity price risk

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

As at December 31, 2019, the following commodity price risk management contracts outstanding:

Contract Type	Notional Volume	Reference Price (1)(2)	Fixed Contract Price	Term
Crude oil derivative contracts				
Basis swap	2,000 bbl/d	MSW	WTI less USD$8.00 per bbl	Jan 2020
Fixed price swap	6,000 bbl/d	WTI	CAD$75.63	Jan - Mar 2020
Fixed price swap	1,000 bbl/d	WTI	CAD$75.80	Apr - Jun 2020
Natural gas derivative contracts				
Fixed price swap	5,000 MMBtu/d	Sumas	USD$3.70 per MMBtu	Jan 2020
Basis swap	10,000 MMBtu/d	Malin	NYMEX less USD$0.316 per MMBtu	Jan - Feb 2020

(1) West Texas Intermediate ("WTI")
(2) Mixed Sweet Blend ("MSW")

Subsequent to December 31, 2019, Kelt entered into the following commodity price risk management contracts:

Contract Type	Notional Volume	Reference Price (1)(2)	Fixed Contract Price	Term
Crude oil derivative contracts				
Fixed price swap	3,000 bbl/d	WTI	CAD$78.13	Apr - Jun 2020
Basis swap	3,000 bbl/d	MSW	WTI less CAD$6.40 per bbl	Apr - Jun 2020
Basis swap	1,000 bbl/d	MSW	WTI less USD$4.60 per bbl	Apr - Jun 2020
NGL derivative contracts				
Fixed price swap	500 bbl/d	OPIS-Conway propane	CAD$23.35 per bbl	Apr 2020 - Mar 2022
Natural gas derivative contracts				
Fixed price swap	15,000 MMBtu/d	NYMEX	CAD$2.76 per MMBtu	Apr - Nov 2020

(1) West Texas Intermediate ("WTI")
(2) Mixed Sweet Blend ("MSW")

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's Credit Facility which is subject to a floating interest rate. Based on average bank debt outstanding of $249.9 million during 2019, an increase (decrease) in the market rate of interest by 25 basis points would have increased (decreased) annualized interest expense by $0.6 million.

As at December 31, 2019, 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 December 31, 2019, there are no foreign exchange risk management contracts outstanding.

Gains and losses on risk management contracts

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

	Year ended December 31	
	2019	2018
Realized loss	**(912)**	(5,900)
Unrealized gain (loss)	**(4,902)**	2,596
Loss on derivative financial instruments	**(5,814)**	(3,304)

Fair value measurements

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

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

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

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

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at December 31, 2019:

	Carrying Value (“CV”)			Fair Value		
	Gross	Netting(1)	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	-	-	-	-	-	-
Investment in securities	5,600	-	5,600	-	-	5,600
Financial liabilities						
Derivative financial instrument	2,305	-	2,305	-	2,305	-
Convertible debentures (note 8)	82,789	-	82,789	102,497	-	-

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

Kelt’s investment in securities includes an investment in a private corporation entered into during the first quarter of 2018. The estimated fair value of the Company’s investments in securities is based on equity issuances and other indications of value (level three fair value hierarchy inputs). During the year ended December 31, 2019, the Company recognized an unrealized gain of its investment in securities of $0.6 million based on the fair value implied by an equity issuance.

The fair value of the convertible debentures of $102.5 million as at December 31, 2019, is based on the closing market price of $114.00 per Debenture, being the price at which the Debentures last traded in the quarter, and represents the market value of the entire instrument. As at December 31, 2018, the fair value was $99.6 million based on the closing market price of $110.73 per Debenture.

Credit risk

As at December 31, 2019, 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	**December 31, 2019**	December 31, 2018
Joint venture partners	**2,320**	3,672
Oil and gas marketers	**37,548**	35,129
GST input tax credits	**4,802**	4,559
Risk management contracts	**189**	-
Other	**113**	2,820
Accounts receivable and accrued sales	**44,972**	46,180

During the year ended December 31, 2019, sales to three oil and gas marketers each individually represented more than 10% of total sales. Sales to these marketers account for approximately 20%, 19%, and 38% of total sales, respectively. During the comparative period ended December 31, 2018, sales to three oil and gas marketers accounted for approximately 40%, 18%, and 11% of total sales, respectively. Kelt's oil and gas marketers have either provided parental guarantees (with terms ranging from two to five years), or have been rated investment-grade by a reputable ratings agency for substantially all of the Company's monthly credit exposure.

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 December 31, 2019, the collection risk on outstanding accounts receivable balances is considered low as only 5.1% of the total accounts receivable balance is outstanding for more than 90 days (December 31, 2018 – 3.1%).

Liquidity risk

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

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, the Company targets to maintain sufficient unused bank credit lines over the long term to satisfy such working capital deficiencies. The Company's working capital deficit of $28.1 million combined with outstanding bank debt of $300 million as at December 31, 2019, represented 94% of the authorized borrowing amount available under the revised credit facility of $350.0 million. The Credit Facility is available for a revolving period of 364 days, maturing on April 30, 2020, and may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2019:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	76,072	-	-	**76,072**
Derivative financial instruments	2,305	-	-	**2,305**
Bank debt and estimated interest(1)	11,700	300,000	-	**311,700**
Convertible debentures(2)	4,508	91,770	-	**96,278**
Lease liability	1,055	1,481	132	**2,668**
Financing liability	771	-	-	**771**
Total	**96,411**	**393,251**	**132**	**489,794**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 3.9% for the quarter ended December 31, 2019, applied to the principal balance outstanding as at that date. For purposes of this analysis, principal repayment of the Company's revolving Credit Facility is assumed to occur on January 1, 2021.

(2) The contractual maturity analysis includes semi-annual cash interest payments at the fixed coupon rate of 5.0%, assuming that the $89.9 million principal amount of the Debentures is outstanding for the full term to maturity on May 31, 2021, provided that: the equity conversion option is not first exercised by the holder; and that the Company does not elect to settle its financial obligation by issuing common shares instead of cash at redemption or maturity. Refer to additional information regarding the Debentures in note 8.

Capital management

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

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

	December 31, 2019	December 31, 2018
Bank debt	**300,000**	168,881
Working capital deficiency	**28,080**	27,535
Net bank debt (1)	**328,080**	196,416
Annualized quarterly adjusted funds from operations (2)(3)	**186,620**	186,839
Net bank debt to annualized quarterly adjusted funds from operations ratio (1)	**1.8**	1.1

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

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

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

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

The Company's net bank debt to annualized quarterly adjusted funds from operations ratio of 1.8 times increased as at December 31, 2019 from 1.1 times at December 31, 2018.

As more particularly described in note 7, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at December 31, 2019, the Company is in compliance with all covenants. The Company is not subject to any other externally imposed capital requirements.

14. INCOME TAXES

Kelt was not required to pay income taxes in the current or prior year as the Company had sufficient income tax deductions available to shelter taxable income. Tax deductions available as of December 31, 2019 are estimated to be approximately $1,184.7 million (December 31, 2018 – $1,048.6 million).

The following table reconciles income taxes calculated at the weighted average Canadian statutory rate with the actual provision for deferred income taxes per the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss):

	Year ended December 31	
	2019	2018
Profit (Loss) before income taxes	**9,407**	22,853
Canadian statutory tax rate	**26.8%**	27.0%
Expected income tax expense (recovery)	**2,522**	6,170
Increase (decrease) resulting from:		
Non-deductible expenses [(1)]	**1,833**	1,659
Recognition deferred tax asset	**(1,528)**	(1,569)
Qualifying expenditures on flow-through shares	**-**	8,042
Premium on flow-through shares	**-**	(1,118)
Other	**121**	
Change in tax rates	**(113)**	1,515
Deferred income tax expense (recovery)	**2,835**	14,699

(1) Non-deductible expenses primarily include share based compensation.

The Canadian statutory tax rate per the rate reconciliation above represents the weighted average combined federal and provincial corporate tax rate. The federal corporate tax rate is 15.0% and the annual average provincial tax rate in Alberta and British Columbia is 11.5% and 12.0% respectively.

The movement in deferred income tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction are as follows:

Deferred income tax asset (liability)	Balance at December 31, 2018	Recognized in profit and CI[(1)]	Recognized in balance sheet	**Balance at December 31, 2019**
Derivative financial instruments	(701)	1,312	-	**611**
PP&E and E&E	(178,034)	(24,451)	-	**(202,485)**
Decommissioning obligations	39,061	(373)	-	**38,688**
Lease liability	-	660	-	**660**
Convertible debentures	(2,726)	1,188	-	**(1,538)**
Share and debt issue costs	633	(374)	12	**271**
Reserve from common control transaction	(3,501)	1,767	-	**(1,734)**
Non-capital losses [(2)]	91,662	17,436	-	**109,098**
	(53,606)	(2,835)	12	**(56,429)**

Deferred income tax asset (liability)	Balance at December 31, 2017	Recognized in profit and CI(1)	Recognized in balance sheet	Balance at December 31, 2018
Derivative financial instruments	-	(701)	-	(701)
PP&E and E&E	(158,566)	(19,468)	-	(178,034)
Decommissioning obligations	36,505	2,556	-	39,061
Convertible debentures	(3,604)	878	-	(2,726)
Share and debt issue costs	1,333	(924)	224	633
Reserve from common control transaction	(5,058)	1,557	-	(3,501)
Non-capital losses (2)	90,259	1,403	-	91,662
	(39,131)	(14,699)	224	(53,606)

(1) Comprehensive income has been abbreviated as "CI".

(2) The Company's non-capital losses expire in years 2026 to 2039.

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the nature and timing of future capital expenditures and the Company's future operating results.

15. REVENUE

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes revenue for variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the year ended December 31, 2019, transportation costs incurred in relation to these contracts was $22.5 million.

Kelt has a number of variable priced long term commodity sales contracts where the volumes under these contracts for future periods have not yet been fulfilled resulting in unsatisfied performance obligations as at the reporting date. These contracts have varying durations, with the longest individual commodity sales contract ending in October 2020.

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

	December 31, 2019	December 31, 2018
Oil production	**226,327**	198,117
Oil treating and other	**548**	3,170
NGLs production	**33,796**	39,310
Gas production	**108,990**	120,018
Gas processing and other	**1,419**	1,734
Marketing revenue	**23,276**	26,928
Total petroleum and natural gas sales	**394,356**	389,277

Included in accounts receivable at December 31, 2019 is $37.5 million (December 31, 2018 - $35.1 million) of accrued oil and gas sales related to December 2019 production.

16. FINANCING EXPENSES

The following table summarizes significant components of the Company's financing expenses:

	Year ended December 31	
	2019	2018
Interest on bank debt [note 7]	**10,615**	5,556
Interest on convertible debentures [note 8]	**4,496**	4,497
Interest on finance lease [note 11]	**165**	-
Interest on finance liability [note 10]	**104**	-
Accretion of convertible debentures [note 8]	**4,399**	3,949
Accretion of decommissioning obligations [note 9]	**2,994**	3,193
Financing expense	**22,773**	17,195

17. COMMITMENTS

As of December 31, 2019, the Company is committed to future payments under the following agreements:

	2020	2021	2022	2023	2024	Thereafter
Firm processing commitments	17,797	18,716	22,643	21,286	19,135	94,140
Firm transportation commitments (1)	37,273	28,526	27,019	22,258	20,743	161,707
Total annual commitments	**55,070**	**47,242**	**49,662**	**43,544**	**39,878**	**255,847**

(1) A portion of Kelt's commitments on the Alliance pipeline is denominated in US dollars. The volumes committed vary over the term of the contract, which is effective until October 31, 2023, respectively. Amounts are translated to Canadian dollars at the spot rate on December 31, 2019 of CA$/US$1.2988.

On January 1, 2019, the Company adopted IFRS 16 which resulted in the recognition of lease liabilities related to operating leases on the balance sheet some of which were previously reported as commitments. See note 3 for a reconciliation from the commitments as at December 31, 2018 to Kelt's lease liabilities as at January 1, 2019.

18. GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Year ended December 31	
	2019	2018
Salaries and benefits (1)	**10,340**	9,383
Other G&A expenses	**4,717**	4,664
G&A expenses before recoveries and credit loss provisions	**15,057**	14,047
Overhead recoveries	**(6,400)**	(5,695)
G&A expenses before credit loss provisions	**8,657**	8,352
Provision for potential credit losses	**232**	(128)
G&A expense	**8,889**	8,224

(1) Refer to additional information regarding salaries and benefits paid to key management personnel in note 20 of these financial statements.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
Changes in non-cash working capital	**2019**	2018
Accounts receivable and accrued sales	**1,208**	(6,734)
Prepaid expenses and deposits	**(558)**	337
Accounts payable and accrued liabilities	**(7,458)**	(4,253)
Change in non-cash working capital	**(6,808)**	(10,650)
Relating to:		
Operating activities	**(17,699)**	538
Investing activities	**10,891**	(11,188)
Change in non-cash working capital	**(6,808)**	(10,650)

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

	Year ended December 31	
Cash outlays in respect of interest and taxes	**2019**	2018
Interest and standby fees on bank debt	**9,180**	6,140
Interest on convertible debentures (1)	**4,496**	4,498
Taxes (2)	**-**	-

(1) Interest on the Debentures is payable semi-annually on May 31st and November 30th (note 8).

(2) Kelt was not required to pay cash income taxes as the Company had sufficient income tax deductions available to shelter taxable income (note 14).

20. RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where a director of Kelt is a partner, and Kelt has engaged the services of a registrar and transfer agent where an officer of Kelt is a director of the company. During the year ended December 31, 2019, the Company incurred $0.5 million (2018 – $0.4 million) in disbursements to related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The following table summarizes compensation paid or payable to officers and directors of the Company:

	Year ended December 31	
	2019	2018
Salaries, bonuses and other benefits	**2,260**	2,116
Share based compensation	**1,230**	4,135
Total compensation	**3,490**	6,251

During the year ended December 31, 2019, key management personnel were granted 50,000 RSUs and 930,000 stock options with an exercise price of $2.84 per share. During the previous year ended December 31, 2018, key management personnel were granted 194,000 RSUs and 1,187,000 stock options with an exercise price of $5.43 per share.

ABBREVIATIONS

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

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 mcf = 28.2 cubic metres

0.035 mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

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

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

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

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

Douglas J. Errico
Vice President, Land

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

David A. Gillis
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick W.G. Miles
Vice President, Exploration

Carol Van Brunschot
Vice President, Marketing

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Calgary, Alberta T2P 5L3

EVALUATION ENGINEERS

Sproule Associates Limited
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Calgary, Alberta T2P 3N3

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Convertible Debentures “KEL.DB”

kelt exploration

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