INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2021

Notice of no auditor review of the Q1 2020 prior interim financial statements

The Company discloses that its auditors have not reviewed the unaudited consolidated interim financial statements as at and for the three months ended March 31, 2020. The management of Kelt Exploration Ltd. was responsible for the preparation of these interim financial statements, which were prepared in accordance with International Financial Reporting Standards.

The unaudited consolidated interim financial statement as at and for the three months ended March 31, 2021 were reviewed by the Company's auditors.

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

(CA$ thousands)	[Notes]	**March 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**33,863**	31,570
Accounts receivable and accrued revenue	[11]	**25,284**	20,954
Prepaid expenses and deposits		**11,323**	11,696
Derivative financial instruments	[11]	**1,584**	2,673
Total current assets		**72,054**	66,893
Deferred income tax asset		**31,337**	31,879
Exploration and evaluation assets	[6]	**54,872**	53,449
Property, plant and equipment	[7]	**616,770**	607,766
Total assets		**775,033**	759,987
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**46,167**	36,565
Derivative financial instruments	[11]	**3,071**	1,214
Decommissioning obligations	[9]	**2,224**	2,169
Lease liability		**621**	684
Total current liabilities		**52,083**	40,632
Decommissioning obligations	[9]	**114,998**	114,891
Lease liability		**667**	780
Total liabilities		**167,748**	156,303
SHAREHOLDERS' EQUITY			
Shareholders' capital	[10]	**1,141,586**	1,141,517
Contributed surplus and reserve		**(18,375)**	(19,053)
Deficit		**(515,926)**	(518,780)
Total shareholders' equity		**607,285**	603,684
Total liabilities and shareholders' equity		**775,033**	759,987

Commitments [13]

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

On behalf of the Board of Directors:

[signed] David J. Wilson, Director

[signed] Neil G. Sinclair, Director

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

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Notes]	**2021**	2020
Revenue			
Petroleum and natural gas sales	[12]	**59,835**	70,918
Royalties		**(4,577)**	(2,870)
		55,258	68,048
Expenses			
Production		**16,046**	30,404
Transportation		**5,515**	9,804
Cost of purchases		**1,834**	3,517
Financing		**387**	6,420
General and administrative		**2,501**	1,812
Share based compensation	[10]	**747**	1,509
Exploration and evaluation	[6]	**-**	320
Depletion, depreciation and impairment	[7]	**20,019**	116,056
		47,049	169,842
Gain (loss) on derivative financial instruments	[11]	**(4,804)**	28,949
Foreign exchange gain (loss)		**(54)**	320
Premium on flow-through shares		**-**	1,346
Gain on sale of assets		**-**	1,703
Other expenses		**-**	(401)
Other income		**46**	556
Profit (loss) before taxes		**3,397**	(69,321)
Deferred income tax expense		**(543)**	(4,764)
Profit (loss) and comprehensive income (loss)		**2,854**	(74,085)
Profit (Loss) per common share			
Basic		**0.02**	(0.39)
Diluted		**0.02**	(0.39)

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

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

(CA$ thousands)	[Notes]	Shareholders' capital Number of Shares (000s)	Shareholders' capital Amount ($ thousands)	Reserve	Contributed surplus	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2020		188,580	1,141,517	(57,668)	38,615	(518,780)	603,684
Profit and comprehensive income		-	-	-	-	2,854	2,854
Vesting of restricted share units	[10]	10	69	-	(69)	-	-
Share based compensation	[10]	-	-	-	747	-	747
Balance at March 31, 2021		**188,590**	**1,141,586**	**(57,668)**	**39,293**	**(515,926)**	**607,285**

Balance at December 31, 2019		187,786	1,137,121	(57,668)	37,582	(193,973)	923,062
Loss and comprehensive loss		-	-	-	-	(74,085)	(74,085)
Vesting of restricted share units	[10]	13	90	-	(90)	-	-
Share based compensation	[10]	-	-	-	1,509	-	1,509
Balance at March 31, 2020		187,799	1,137,211	(57,668)	39,001	(268,058)	850,486

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

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

		Three months ended March 31	
(CA$ thousands)	[Notes]	**2021**	2020
Operating activities			
Profit (loss) and comprehensive income (loss)		**2,854**	(74,085)
Items not affecting cash:			
Accretion		**343**	1,861
Share based compensation		**747**	1,509
Exploration and evaluation		**-**	320
Depletion, depreciation and impairment		**20,019**	116,056
Unrealized (gain) loss on derivative financial instruments	[11]	**2,945**	(21,647)
Other expenses		**-**	401
Premium on flow-through shares		**-**	(1,346)
Gain on sale of assets		**-**	(1,703)
Deferred income tax expense		**543**	4,764
Cash premiums on derivatives		**-**	1,230
Settlement of decommissioning obligations	[9]	**(1,181)**	(104)
Change in non-cash operating working capital	[14]	**312**	22,916
Cash provided by operating activities		**26,582**	50,172
Financing activities			
Increase in bank debt		**-**	10,000
Increase in financing liability		**-**	28,706
Repayment of lease liability principle		**(176)**	(319)
Cash provided by (used in) financing activities		**(176)**	38,387
Investing activities			
Exploration and evaluation assets	[6]	**(2,425)**	(1,937)
Property, plant and equipment	[7]	**(27,026)**	(91,292)
Property acquisitions		**5**	(15)
Property dispositions		**-**	2,118
Change in non-cash investing working capital	[14]	**5,333**	19,566
Cash (used in) investing activities		**(24,113)**	(71,560)
Net change in cash and cash equivalents		**2,293**	16,999
Cash and cash equivalents, beginning of period		**31,570**	8,365
Cash and cash equivalents, end of period		**33,863**	25,364

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

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

1. DESCRIPTION OF THE BUSINESS

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

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

2. COVID-19 and Significant Judgements and Estimates

The COVID-19 pandemic remains a risk and continues to cast uncertainty on the global economy and crude oil prices due to the emergence of new COVID-19 variants and potential delays in the rollout of global vaccination programs.

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

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

These estimates require assumptions for future commodity prices, exchange rates, interest rates, future oil and natural gas production, and other economic issues that have a high degree of uncertainty. As the understanding of the longer-term impacts of COVID-19 on commodity, credit and equity markets develops in 2021, so will the assumptions for the valuation of Kelt's exploration and evaluation assets, the valuation of its cash generating units, the timing around its decommissioning obligations, the fair value of its investments in securities and the Company's calculated expected credit loss provision and the general collectability of its accounts receivables.

3. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated condensed interim financial statements on May 5, 2021 for issue on May 6, 2021.

a) Statement of compliance

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

b) Basis of measurement

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

5. PROPERTY ACQUISITIONS AND DISPOSITIONS

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

The Inga Asset Disposition agreement included customary indemnification provisions with an associated holdback held in trust and recorded as a deposit on the balance sheet. As at March 31, 2021, $10.0 million of the holdback remained as a deposit held in trust. Subsequent to March 31, 2021, Kelt received $5.0 million of the holdback. The remaining holdback of $5.0 million is expected to be released in the third quarter of 2021 provided no claims are brought forth by the purchaser.

6. EXPLORATION AND EVALUATION ASSETS

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

The following table reconciles movements of exploration and evaluation assets:

	March 31, 2021	December 31, 2020
Balance, beginning of period	**53,449**	73,891
Additions	**2,425**	2,853
Property acquisitions	**-**	2,113
Property dispositions	**-**	(20,321)
Transfers to property, plant and equipment	**(1,002)**	(1,868)
Expired mineral leases	**-**	(3,219)
Balance, end of period	**54,872**	53,449

7. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**March 31, 2021**	December 31, 2020
Development and production ("D&P") assets	**615,442**	606,332
Right-of-use ("ROU") assets	**1,111**	1,243
Corporate assets	**217**	191
Total net carrying value of property, plant and equipment	**616,770**	607,766

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2019	2,255,430	4,800	3,501	2,263,731
Additions	148,798	438	884	150,120
Property acquisitions	1,245	-	-	1,245
Property dispositions	(1,154,435)	-	(1,882)	(1,156,317)
Decommissioning costs	(1,008)	-	-	(1,008)
Transfers from E&E	1,868	-	-	1,868
Balance at December 31, 2020	**1,251,898**	**5,238**	**2,503**	**1,259,639**
Additions	**26,963**	**63**	**-**	**27,026**
Property acquisitions	**(5)**	-	**-**	**(5)**
Decommissioning costs	**1,000**	**-**	**-**	**1,000**
Transfers from E&E	**1,002**	**-**	**-**	**1,002**
Balance at March 31, 2021	**1,280,858**	**5,301**	**2,503**	**1,288,662**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2019	787,853	4,304	1,163	793,320
Depletion and depreciation expense	110,904	743	976	112,623
Impairment	336,500	-	-	336,500
Dispositions [note 5]	(589,691)	-	(879)	(590,570)
Balance at December 31, 2020	**645,566**	**5,047**	**1,260**	**651,873**
Depletion and depreciation expense	**19,850**	**37**	**132**	**20,019**
Balance at March 31, 2021	**665,416**	**5,084**	**1,392**	**671,892**

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

As at March 31, 2021, the Company concluded that there were no indicators of impairment or reversals of previously recorded impairments as compared to December 31, 2020 therefore an impairment test was not conducted.

8. BANK DEBT

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

There are no borrowings under the Credit Facility at March 31, 2021 other than outstanding letters of credit of $1.2 million. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount. The credit facility is subject to semi-annual redeterminations. There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $100.0 million.

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

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:

	March 31, 2021	December 31, 2020
Balance, beginning of period	**117,060**	160,023
Obligations incurred	**438**	1,265
Obligations acquired	**-**	1,015
Obligations disposed	**-**	(42,917)
Obligations settled	**(1,181)**	(1,945)
Changes in discount rate	**(25,679)**	35,862
Changes in inflation rate	**25,892**	(36,101)
Revisions to estimates	**349**	(2,034)
Accretion expense	**343**	1,892
Balance, end of period	**117,222**	117,060
Decommissioning obligations – current	**2,224**	2,169
Decommissioning obligations – non-current	**114,998**	114,891
Key assumptions		
Risk free rate	**1.97%**	1.21%
Inflation rate	**1.97%**	1.21%

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2021 the undiscounted amount of the estimated cash flows required to settle the obligation is $117.2 million (December 31, 2020 – $117.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 1.97%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $229.0 million at March 31, 2021 (December 31, 2020 – $174.8 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

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

10. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of March 31, 2021 (December 31, 2019 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2019	187,786	1,137,121
Issued for cash on exercise of stock options	277	274
Transfer from contributed surplus on exercise of stock options	-	123
Released upon vesting of restricted share units	517	3,997
Share issue costs, net of deferred taxes	-	2
Balance at December 31, 2020	**188,580**	**1,141,517**
Released upon vesting of restricted share units	**10**	**69**
Balance at March 31, 2021	**188,590**	**1,141,586**

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2019	10,015	4.76
Granted	2,725	1.03
Exercised (1)	(277)	0.99
Forfeited	(1,267)	4.44
Expired	(1,229)	4.77
Balance at December 31, 2020	**9,967**	**3.88**
Granted	**2,460**	**2.72**
Expired	**(160)**	**3.92**
Balance at March 31, 2021	**12,267**	**3.65**

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

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

	Three months ended March 31	
	2021	2020
Risk free interest rate	**0.6%**	1.6%
Expected life (years)	**3.6**	3.0
Expected volatility (1)	**79.4%**	47.5%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**5.3%**	4.5%
Fair value of options granted during the year ($/share)	**1.47**	1.60

(1) The expected volatility for options granted is estimated based on Kelt's historical share price volatility.

The following table summarizes information regarding stock options outstanding at March 31, 2021:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	6,593	4.2	2.12	596	2.76
$3.51 to $6.50	5,085	1.6	5.18	4,389	5.25
$6.51 to $9.50	589	1.8	7.62	486	7.53
Total	**12,267**	**3.0**	**3.65**	**5,471**	**5.18**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2019	865
Granted	10
Released upon vesting	(517)
Forfeited	(12)
Balance at December 31, 2020	**346**
Granted	**657**
Released upon vesting	**(10)**
Balance at March 31, 2021	**993**

Share based compensation expense

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

	Three months ended March 31	
	2021	2020
Stock options	**509**	842
Restricted share units	**238**	667
Total share based compensation expense	**747**	1,509

Per share amounts

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

	Three months ended March 31	
(000s of common shares)	**2021**	2020
Weighted average common shares outstanding, basic	**188,585**	187,794
Effect of stock options and RSUs	**1,359**	146
Weighted average common shares outstanding, diluted	**189,944**	187,940

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted profit or loss per common share. For the quarter ended March 31, 2021, the company included the effect of stock options and RSUs in calculating the diluted profit or loss per common share however, the effect was negligible.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

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

As at March 31, 2021, the following commodity price risk management contracts are outstanding:

Contract Type(1)(2)(3)	Notional Volume	Contract Price	Remaining Term
Crude oil derivative contracts			
WTI fixed price swap	1,500 bbl/d	CAD$58.52/bbl	Apr – June 2021
WTI fixed price swap	1,500 bbl/d	CAD$70.00/bbl	Jul – Sept 2021
WTI-MSW basis swap	1,500 bbl/d	WTI less USD$4.55/bbl	Apr – Sept 2021
Natural gas derivative contracts			
NYMEX fixed price swap	10,000 MMBtu/d	CAD$4.00/MMBtu	Apr – Oct 2021
AECO 5A fixed price swap	5,000 GJ/d	CAD$2.70/GJ	Apr – Oct 2021

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

Subsequent to March 31, 2021, the Company entered into the following commodity price risk management contracts:

Contract Type(1)	Notional Volume	Contract Price	Remaining Term
Natural gas derivative contracts			
NYMEX fixed price swap	15,000 MMBtu/d	CAD$3.67/MMBtu	Jun – Oct 2021

(1) NYMEX Henry Hub (“NYMEX”)

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 March 31, 2021, there are no foreign exchange risk management contracts outstanding.

Gains and losses on risk management contracts

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

	Three months ended March 31	
	2021	2020
Realized gain (loss)	**(1,859)**	7,302
Unrealized gain (loss)	**(2,945)**	21,647
Gain (loss) on derivative financial instruments	**(4,804)**	28,949

Fair value measurements

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

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

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

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

Credit Risk

As at March 31, 2021, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

Accounts receivable and accrued sales	**March 31, 2021**	December 31, 2020
Joint venture partners	**2,775**	3,510
Oil and gas marketers	**21,957**	16,650
GST input tax credits	**810**	1,011
Interest receivable	**-**	104
Risk management contracts	**129**	86
Other	**366**	346
Expected credit loss provision	**(753)**	(753)
Accounts receivable and accrued sales	**25,284**	20,954

During the quarter ended March 31, 2021, sales to five oil and gas marketers accounted for approximately 97% of total sales. During the comparative period ended December 31, 2020, sales to four oil and gas marketers accounted for approximately 82% of total sales. Kelt has mitigated some of its credit risk through parental guarantees (with terms up to five years) and through the majority of its sales to oil and gas marketers which have been rated investment-grade by an independent ratings agency.

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

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

Liquidity Risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities as at March 31, 2021 include accounts payable, derivative financial instruments and lease liabilities. The Company manages liquidity risk with its budgeting process which sets out expected debt levels, capital expenditures and funds flow from operations. In addition, risk management contracts such as derivative financial instruments may be used to protect future revenue. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements and expected revenues.

The capital intensive nature of Kelt's operations may create a working capital deficiency position during periods with high levels of capital investment. However, the Company targets to maintain sufficient unused bank credit lines or other liquidity to satisfy such working capital deficiencies. Kelt plans to finance its 2021 capital program using cash on hand as of March 31, 2021 and funds from operations.

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at March 31, 2021:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	46,167	-	-	**46,167**
Derivative financial instruments	3,071	-	-	**3,071**
Lease liability	621	667	-	**1,288**
Total	**49,859**	**667**	**-**	**50,526**

Capital Management

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

As at March 31, 2021, Kelt is without any long-term bank or financial obligations and has a positive working capital surplus of $20.0 million.

At March 31, 2021, the Company has a $20.0 million demand credit facility for the purpose of short-term working capital management, hedging and letters of credit. Based on current commodity prices and the uncertain impacts of COVID-19, Kelt does not anticipate using bank debt to fund capital expenditures until market conditions improve.

	March 31, 2021	December 31, 2020
Bank debt	**-**	-
Working capital surplus	**(19,971)**	(26,261)
Net bank debt (1)	**(19,971)**	(26,261)
Annualized quarterly adjusted funds from operations (2)(3)	**109,804**	43,032
Net bank debt to annualized quarterly adjusted funds from operations ratio (2)	**(0.2)**	(0.6)

(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 and settlement of decommissioning obligations.

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

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

As more particularly described in note 8, Kelt is subject to certain non-financial covenants under the Credit Facility agreement. As at March 31, 2021, the Company is in compliance with all covenants as no bank debt has been drawn against its Credit Facility. The Company is not subject to any other externally imposed capital requirements.

12. REVENUE

Kelt sells its oil, natural gas, and NGLs production under variable price contracts. The transaction price is based on a benchmark commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. 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 quarter ended March 31, 2021, transportation costs incurred in relation to these contracts was $2.5 million (March 31, 2020 – $4.9 million).

Kelt has a number of variable priced long-term commodity sales contracts where the volumes under these contracts for future periods have not yet been fulfilled resulting in unsatisfied performance obligations as at the reporting date.

These contracts have varying durations, with the longest individual commodity sales contract ending in October 2023.

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

	Three months ended March 31	
	2021	2020
Oil production	**23,852**	39,924
Oil treating and other	**187**	174
NGLs production	**10,579**	5,991
Gas production	**23,060**	21,304
Gas processing and other	**241**	312
Marketing revenue	**1,916**	3,213
Total petroleum and natural gas sales	**59,835**	70,918

Included in accounts receivable at March 31, 2021 is $22.0 million (December 31, 2020 – $16.7 million) of accrued oil and gas sales related to March 2021 production.

13. COMMITMENTS

As of March 31, 2021, the Company is committed to future payments under the following agreements:

	2021	2022	2023	2024	2025	Thereafter
Firm processing commitments	8,701	11,557	11,566	11,607	9,455	34,776
Firm transportation commitments (1)	16,898	20,690	16,051	14,496	12,601	22,361
Total annual commitments	**25,599**	**32,247**	**27,617**	**26,103**	**22,056**	**57,137**

(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 March 31, 2021 of CA$/US$1.2575.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2021**	2020
Accounts receivable and accrued sales	**(4,330)**	11,863
Prepaid expenses and deposits	**373**	362
Accounts payable and accrued liabilities	**9,602**	30,658
Change in non-cash working capital	**5,645**	42,883
Relating to:		
Operating activities	**312**	22,916
Investing activities	**5,333**	19,566
Items not impacting cash	**-**	401
Change in non-cash working capital	**5,645**	42,883

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

	Three months ended March 31	
Cash outlays in respect of interest and taxes	**2021**	2020
Interest and standby fees on bank debt	**32**	3,267
Taxes (1)	**-**	-

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