kelt exploration

AUDITED ANNUAL FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED
DECEMBER 31, 2022

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 3, 2023

[signed]

Sadiq H. Lalani
Vice President and Chief Financial Officer
March 3, 2023

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 subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2022 and 2021;
- the consolidated statement of net income and comprehensive net income for the years then ended;
- the consolidated statement of changes in shareholders' equity for the years then ended;
- the consolidated statement of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of crude oil and natural gas proved reserves on net development and production (D&P) assets *Refer to note 2(c) – Significant judgments and estimates, note 3 – Significant accounting policies and note 6 – Property, plant and equipment to the consolidated financial statements.* The Company has $997.2 million of D&P as at December 31, 2022 and depletion and depreciation (D&D) expense was $116.1 million for the year then ended. D&P assets are depleted using the unit-of-production method based on the ratio of production in the year to the related proved reserves, taking into account future development costs necessary to bring those reserves into production. Significant assumptions used by management to determine the proved reserves of the Company's D&P assets include production forecasts, future production costs, forecasted commodity prices and future development costs. Proved reserves are determined by independent qualified reserve evaluators (management's experts). We determined that this is a key audit matter due to i) the judgments made by management, including the use of management's experts, when estimating the proved reserves; and ii) a high degree of auditor judgment, subjectivity, and effort	Our approach to addressing the matter included the following procedures, among others: ● Tested how management determined the proved reserves, which included the following: – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved reserves. As a basis for using this work, the competence, capabilities, and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. – Evaluated the reasonableness of significant assumptions used, including production forecasts, future production costs and future development costs by considering the current and past performance and whether these assumptions were consistent with evidence obtained in other areas of the audit, as applicable. – Evaluated the reasonableness of forecasted commodity prices by comparing them to third party industry forecasts.

Key audit matter	How our audit addressed the key audit matter
in performing procedures relating to the significant assumptions.	• Recalculated the unit-of-production rates used to calculate D&D expense.

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, 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Scott Don Althen.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 2, 2023

KELT EXPLORATION LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022 AND DECEMBER 31, 2021

(CA$ thousands)	[Notes]	**December 31, 2022**	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		**125**	719
Accounts receivable and accrued sales	[11]	**81,075**	42,584
Prepaid expenses, deposits and other		**3,599**	2,080
Derivative financial instruments	[11]	**26,751**	5,338
Total current assets		**111,550**	50,721
Derivative financial instruments	[11]	**2,427**	-
Deferred income tax asset	[12]	**-**	10,443
Exploration and evaluation assets	[5]	**16,843**	29,529
Property, plant and equipment	[6]	**997,284**	822,804
Total assets		**1,128,104**	913,497
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[11]	**83,288**	72,453
Derivative financial instruments	[11]	**1,414**	1,109
Decommissioning obligations	[8]	**2,187**	2,396
Lease liability	[9]	**505**	609
Total current liabilities		**87,394**	76,567
Bank debt	[7]	**11,300**	1,150
Decommissioning obligations	[8]	**86,445**	112,657
Lease liability	[9]	**543**	399
Deferred income tax liability	[12]	**40,998**	-
Total liabilities		**226,680**	190,773
SHAREHOLDERS' EQUITY			
Shareholders' capital	[10]	**1,162,650**	1,144,596
Contributed surplus and reserve		**(15,460)**	(17,348)
Deficit		**(245,766)**	(404,524)
Total shareholders' equity		**901,424**	722,724
Total liabilities and shareholders' equity		**1,128,104**	913,497

Commitments [15]

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 NET INCOME AND COMPREHENSIVE NET INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND DECEMBER 31, 2021

		Year ended December 31	
(CA$ thousands, except per share amounts)	[Notes]	**2022**	2021
Revenue			
Petroleum and natural gas sales	[13]	**613,358**	316,763
Royalties		**(65,567)**	(27,414)
		547,791	289,349
Expenses			
Production		**101,566**	69,904
Transportation		**30,467**	25,855
Cost of purchases		**21,438**	6,348
Financing	[14]	**3,911**	2,443
General and administrative	[16]	**10,302**	9,251
Share based compensation	[10]	**7,014**	4,216
Exploration and evaluation	[5]	**14,484**	928
Depletion and depreciation	[6]	**116,183**	91,251
Impairment reversal	[6]	**-**	(70,130)
		305,365	140,066
Loss on derivative financial instruments	[11]	**(32,974)**	(13,656)
Foreign exchange gain		**788**	17
Gain (loss) on sale of assets	[4]	**(196)**	794
Other		**155**	(746)
Net income before taxes		**210,199**	135,692
Deferred income tax expense	[12]	**(51,441)**	(21,436)
Net income and comprehensive income		**158,758**	114,256
Net income per common share			
Basic	[10]	**0.83**	0.61
Diluted	[10]	**0.81**	0.60

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, 2022 AND DECEMBER 31, 2021

		Shareholders' capital				
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Contributed surplus and reserve	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2020		188,580	1,141,517	(19,053)	(518,780)	603,684
Net income and comprehensive income		-	-	-	114,256	114,256
Exercise of stock options	[10]	291	768	(200)	-	568
Vesting of restricted share units	[10]	293	2,311	(2,311)	-	-
Share based compensation	[10]	-	-	4,216	-	4,216
Balance at December 31, 2021		189,164	1,144,596	(17,348)	(404,524)	722,724
Net income and comprehensive income		-	-	-	158,758	158,758
Exercise of stock options	[10]	2,802	17,896	(4,968)	-	12,928
Vesting of restricted share units	[10]	48	158	(158)	-	-
Share based compensation	[10]	-	-	7,014	-	7,014
Balance at December 31, 2022		**192,014**	**1,162,650**	**(15,460)**	**(245,766)**	**901,424**

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, 2022 AND DECEMBER 31, 2021

		Year ended December 31	
(CA$ thousands)	[Notes]	**2022**	2021
Operating activities			
Net income and comprehensive income		**158,758**	114,256
Items not affecting cash:			
Accretion	[14]	**2,451**	2,003
Share based compensation	[10]	**7,014**	4,216
Exploration and evaluation	[5]	**14,484**	928
Depletion and depreciation	[6]	**116,183**	91,251
Impairment reversal	[6]	**-**	(70,130)
Unrealized gain on derivative financial instruments	[11]	**(23,535)**	(2,770)
(Gain) loss on sale of assets	[4]	**196**	(794)
Deferred income tax expense	[12]	**51,441**	21,436
Other		**-**	998
Settlement of decommissioning obligations	[8]	**(3,200)**	(3,583)
Change in non-cash operating working capital	[17]	**(17,770)**	1,903
Cash provided by operating activities		**306,022**	159,714
Financing activities			
Increase in bank debt	[7]	**10,150**	1,150
Proceeds on exercise of stock options	[10]	**12,928**	568
Repayment of lease liability principle	[9]	**(749)**	(745)
Cash provided by financing activities		**22,329**	973
Investing activities			
Exploration and evaluation assets	[5]	**(7,061)**	(4,202)
Property, plant and equipment	[6]	**(309,587)**	(218,105)
Property acquisitions	[4]	**(933)**	(52)
Property dispositions	[4]	**41**	8,848
Change in non-cash investing working capital	[17]	**(11,405)**	21,971
Cash used in investing activities		**(328,945)**	(191,540)
Impact of foreign currency on cash balances		**-**	2
Net change in cash and cash equivalents		**(594)**	(30,851)
Cash and cash equivalents, beginning of year		**719**	31,570
Cash and cash equivalents, end of year		**125**	719

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 are listed on the Toronto Stock Exchange ("TSX") under the symbol "KEL".

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

2. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these consolidated annual financial statements on March 2, 2023 for issue on March 3, 2023.

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 11 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 net carrying value of property, plant, and equipment ("PP&E") is depleted using total proved reserves and future development costs, as determined by the Company's independent qualified reserve evaluators, in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH").

Reserves (proved and probable) are also 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. The reserve estimates are based on production forecasts, future production costs, forecasted commodity prices and future development costs. Reserves also impact the Company's assessment of the commercial viability and technical feasibility of an exploration project which impacts the decision to transfer exploration and evaluation assets ("E&E") to PP&E.

Although 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.

Exploration and evaluation assets

Judgment is required to determine the level at which E&E is assessed for impairment. 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 and could be impacted by a shift in demand as global energy markets transition to a lower carbon-based economy. 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, 2022, 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 these 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 assumptions used to estimate the recoverable amount of PP&E in the impairment test include proved and probable reserve volumes, commodity price forecasts, future production volumes, future production costs, future development capital expenditures and the discount rate.

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.

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 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 future value of the decommissioning obligation can fluctuate in response to many factors including changes to 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 may be adjusted in response to revisions in reserves or changes in laws and regulations and could be impacted by the rate the markets transition to a lower carbon-based economy. 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 8 of these financial statements.

Kelt estimates abandonment and reclamation costs based on a combination of publicly 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 between six and ten years, 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, and are reduced to the extent it is no longer probable that the related tax benefit will be realized. The Company's non-capital losses expire in years 2033 to 2041.

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 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 rate of forfeiture, or number of restricted share units that will ultimately vest. These assumptions are disclosed in note 10 of these financial statements.

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.

Derivative financial instruments

The Company applies judgement in assessing and determining when an embedded derivative exists within a host contract, if the embedded derivative is closely related to the host contract, and the inputs used to fair value an embedded derivative if it is not closely related to the host contract, which would include forecasted benchmark commodity prices.

3. SIGNIFICANT 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 Net Income and Comprehensive Net Income.

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 Net Income and Comprehensive Net Income. Transaction costs associated with the acquisition are expensed when incurred.

Principles of consolidation

As at December 31, 2022, 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.

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.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the Consolidated Statement of Net Income and Comprehensive Net Income. 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.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. Gains and losses on re-measurement of embedded derivatives are included in profit or loss in the period in which they arise.

The Company enters into physical commodity contracts, that are entered into and are held for the purpose of receipt or delivery of non-financial items, in accordance with the Company's expected sale requirements. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position, unless the Company determines that an embedded derivative exists within the contract that needs to be separated out from its host contract. Realized gains or losses from physically settled commodities sales contracts are recognized in petroleum and natural gas sales as the contracts are settled. Embedded derivatives that are separated out from its host contracts 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 3 fair value hierarchy estimates).

Exploration and evaluation assets and property, plant and equipment

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 Net Income and Comprehensive Net Income.

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 Net Income and Comprehensive Net Income. 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 an 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. Proved reserves and future development cost 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. The timing of when the global energy markets transition to a lower carbon-based economy is highly uncertain and may impact the FVLCD.

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 Net Income and Comprehensive Net Income. 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, as 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. 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 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 estimated of the expenditures 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 Net Income (Loss) and Comprehensive Net 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.

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 for 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 Net Income and Comprehensive Net Income 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

Revenue is recognized 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 third 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.

Per share amounts

Basic net income per common share is calculated by dividing net income (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 net income 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. Government grants primarily related to income will be presented in the Consolidated Statement of Net Income or Loss as a reduction to the expense line item the grant relates to, in the period in which the expenditures are incurred, or the related income is earned. Government grants primarily related to decommissioning obligations will be presented as a reduction to the carrying value of the obligation once the grant is received.

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, 2022 and the prior year ended December 31, 2021:

Acquisitions	**December 31, 2022**	December 31, 2021
Exploration and evaluation assets	**2,479**	242
Property, plant and equipment	**2,273**	96
Decommissioning obligations	**(1,290)**	(86)
Total assets (liabilities) acquired	**3,462**	252
Consideration		
Cash consideration	**(933)**	(52)
Non-cash consideration	**(2,529)**	(200)
Total consideration	**(3,462)**	(252)

Dispositions	**December 31, 2022**	December 31, 2021
Exploration and evaluation assets	**(2,513)**	(1,427)
Property, plant and equipment	**(331)**	(10,808)
Decommissioning obligations	**78**	3,981
Carrying value of net (assets) liabilities disposed	**(2,766)**	(8,254)
Consideration		
Cash consideration, after closing adjustments (1)	**41**	8,848
Non-cash consideration	**2,529**	200
Total consideration	**2,570**	9,048
Gain (loss) on sale of assets	**(196)**	794

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

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

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

5. EXPLORATION AND EVALUATION ASSETS

The following table reconciles movements of exploration and evaluation assets:

	December 31, 2022	December 31, 2021
Balance, beginning of year	**29,529**	53,449
Additions	**7,061**	4,202
Property acquisitions [note 4]	**2,479**	242
Property dispositions [note 4]	**(2,513)**	(1,427)
Transfers to property, plant and equipment	**(5,229)**	(26,009)
Exploration and evaluation expense	**(14,484)**	(928)
Balance, end of year	**16,843**	29,529

During the fourth quarter of 2022, the Company expensed approximately $14.2 million of exploratory drilling costs for two exploration wells.

The Company concluded that there are no indicators of potential impairment of its E&E assets at December 31, 2022.

6. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**December 31, 2022**	December 31, 2021
Development and production assets	**995,464**	821,017
Right-of-use assets	**1,189**	1,009
Corporate assets	**631**	778
Total net carrying value of property, plant and equipment	**997,284**	822,804

The following table reconciles movements of property, plant and equipment during the year:

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2020	1,251,898	5,238	2,503	1,259,639
Additions	217,018	1,087	289	218,394
Property acquisitions [note 4]	96	-	-	96
Property dispositions [note 4]	(21,692)	-	-	(21,692)
Provision	(1,000)	-	-	(1,000)
Change in decommissioning obligations	3,468	-	-	3,468
Transfers from E&E	26,009	-	-	26,009
Balance at December 31, 2021	**1,475,797**	**6,325**	**2,792**	**1,484,914**
Additions	**308,759**	**828**	**789**	**310,376**
Property acquisitions [note 4]	**2,273**	**-**	**-**	**2,273**
Property dispositions [note 4]	**(331)**	**-**	**-**	**(331)**
Change in decommissioning obligations	**(26,884)**	**-**	**-**	**(26,884)**
Transfers from E&E	**5,229**	**-**	**-**	**5,229**
Balance at December 31, 2022	**1,764,843**	**7,153**	**3,581**	**1,775,577**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2020	645,566	5,047	1,260	651,873
Depletion and depreciation expense	90,228	500	523	91,251
Impairment reversal	(70,130)	-	-	(70,130)
Dispositions [note 4]	(10,884)	-	-	(10,884)
Balance at December 31, 2021	**654,780**	**5,547**	**1,783**	**662,110**
Depletion and depreciation expense	**114,599**	**975**	**609**	**116,183**
Balance at December 31, 2022	**769,379**	**6,522**	**2,392**	**778,293**

Future development capital expenditures required to develop proved reserves in the amount of $1,210.1 million (December 31, 2021 – $754.6 million) are included in the depletion calculation for development and production assets.

Based on its assessment as of December 31, 2022, the Company determined that there were no indicators of impairment for the Alberta CGU and BC CGU and there are no previous impairments available for reversals.

7. BANK DEBT

The Company has a $100.0 million demand and revolving term facility ("the Credit Facility") with a syndicate of financial institutions. As at December 31, 2022, $11.3 million was drawn under the Credit Facility, with outstanding letters of credit of $2.0 million. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount. The credit facility is subject to semi-annual redeterminations on or before June 30 and November 30 of each year. There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $800.0 million.

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

8. DECOMMISSIONING OBLIGATIONS

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

	December 31, 2022	December 31, 2021
Balance, beginning of year	**115,053**	117,060
Obligations incurred	**2,708**	2,395
Obligations acquired	**1,290**	86
Obligations disposed	**(78)**	(3,981)
Obligations settled	**(3,200)**	(3,583)
Changes in discount rate	**(42,428)**	(26,279)
Changes in inflation rate	**8,724**	16,569
Revisions to estimates (1)	**4,112**	10,783
Accretion expense	**2,451**	2,003
Balance, end of year	**88,632**	115,053
Decommissioning obligations – current	**2,187**	2,396
Decommissioning obligations – non-current	**86,445**	112,657
Key assumptions		
Risk free rate	**3.3%**	1.7%
Inflation rate	**2.0%**	1.7%

(1) Relates to changes in cost estimates of future obligations, changes in anticipated settlement dates, and an increase of 10% in 2022 to the underlying cost estimates.

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2022 the undiscounted amount of the estimated cash flows required to settle the obligation is $126.4 million (December 31, 2021 – $115.1 million) and is expected to be incurred over the next 50 years. Based on an inflation rate of 2.0%, the undiscounted amount of the estimated future cash flows required to settle the obligation is $247.0 million at December 31, 2022 (December 31, 2021 – $191.6 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

Accretion of the decommissioning obligation due to the passage of time is presented within financing expenses in the Consolidated Statement of Net Income and Comprehensive Net Income (note 14).

9. LEASE LIABILITY

	December 31, 2022	December 31, 2021
Balance, beginning of year	**1,008**	1,464
Additions	**789**	289
Interest expense	**46**	67
Lease payments	**(795)**	(812)
Balance, end of year	**1,048**	1,008
Lease liability – current	**505**	609
Lease liability – non-current	**543**	399

The Company has lease liabilities for commercial office space and vehicle leases. The weighted average discount rate for new leases entered in the period ended December 31, 2022 was 9.0% (December 31, 2021 – 5.9%). Payments under the Company's short-term leases were $9.4 million for the year ended December 31, 2022 (December 31, 2021 – $5.0 million), which primarily related to short term drilling rig rentals.

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 December 31, 2022 (December 31, 2021 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2020	188,580	1,141,517
Issued on exercise of stock options	291	568
Transfer from contributed surplus on exercise of stock options	-	200
Released upon vesting of restricted share units	293	2,311
Balance at December 31, 2021	**189,164**	**1,144,596**
Issued on exercise of stock options	**2,802**	**12,928**
Transfer from contributed surplus on exercise of stock options	**-**	**4,968**
Released upon vesting of restricted share units	**48**	**158**
Balance at December 31, 2022	**192,014**	**1,162,650**

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, 2020	9,967	3.88
Granted	2,642	2.79
Exercised (1)	(291)	1.95
Forfeited	(137)	4.66
Expired	(1,658)	4.72
Balance at December 31, 2021	**10,523**	**3.52**
Granted	**3,528**	**5.40**
Exercised (1)	**(2,802)**	**4.61**
Forfeited	**(333)**	**4.55**
Expired	**(384)**	**6.77**
Balance at December 31, 2022	**10,532**	**3.71**

(1) The average share price on the date stock options were exercised during the year ended December 31, 2022 was $6.94 per common share ($3.87 per common share on average during the year ended December 31, 2021).

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

	Year ended December 31	
	2022	2021
Risk free interest rate	**2.00%**	0.60%
Expected life (years)	**3.5**	3.6
Expected volatility (1)	**76.1%**	79.5%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**4.8%**	5.2%
Fair value of options granted during the year ($/share)	**2.87**	1.51

(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, 2022:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $3.50	5,371	2.5	2.14	3,037	2.11
$3.51 to $6.50	4,814	3.2	5.17	1,429	4.76
$6.51 to $9.50	347	0.8	7.76	307	7.88
Total	**10,532**	**2.8**	**3.71**	**4,773**	**3.28**

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 vest in two equal tranches with the first half vesting after two years and the second half after three years.

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2020	346
Granted	709
Released upon vesting	(293)
Forfeited	(3)
Balance at December 31, 2021	**759**
Granted	**200**
Released upon vesting	**(48)**
Forfeited	**(38)**
Balance at December 31, 2022	**873**

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	
	2022	2021
Stock options	**5,902**	3,054
Restricted share units	**1,112**	1,162
Total share based compensation expense	**7,014**	4,216

Per share amounts

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

	Year ended December 31	
(000s of common shares)	**2022**	2021
Weighted average common shares outstanding, basic	**191,101**	188,800
Effect of dilution from stock options and RSUs	**4,355**	2,007
Weighted average common shares outstanding, diluted	**195,456**	190,807

The Company uses the treasury stock method to determine the dilutive effect of stock options and RSUs. Under this method, only “in-the-money” dilutive instruments impact the calculation of diluted net income per common share. For the year ended December 31, 2022 and December 31, 2021, the company included the effect of stock options and RSUs in calculating the diluted net income 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, 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. Net income, cash flows and the fair value of financial assets and liabilities may fluctuate due to movement in market prices or as a result of the Company’s exposure to credit and liquidity risks.

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

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

Commodity price risk

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

As at December 31, 2022, the following commodity price risk management contracts are outstanding:

Natural gas derivative contracts

Contract Type [(2)]	Notional Volume	Contract Price $/MMBtu	Remaining Term
NYMEX fixed price swap	20,000 MMBtu/d	CAD$10.12	Jan 23 – Feb 23
NYMEX fixed price swap	10,000 MMBtu/d	CAD$10.15	Mar 23
AECO 5A fixed price swap	5,000 GJ/d	CAD$4.00/GJ	Apr 23 – Oct 23
NYMEX-AECO 5A basis swap	20,000 MMBtu/d	NYMEX less USD$1.22	Jan 23 – Mar 23
NYMEX-AECO 7A basis swap	10,000 MMBtu/d	NYMEX less USD$0.98	Jan 23 – Mar 23
NYMEX-AECO 5A basis swap	10,000 MMBtu/d	Monthly AECO basis calculated at 30% of the floating monthly NYMEX price	Apr 23 – Oct 24
NYMEX-AECO 5A basis swap	30,000 MMBtu/d	NYMEX less USD$1.10	Nov 24 – Oct 25

Natural Gas Costless Collars [(2)]	Notional Volume	Floor Price $/MMBtu	Ceiling Price $/MMBTU	Remaining Term
NYMEX costless collar	10,000 MMBtu/d	CAD$9.00	CAD$16.40	Jan 23 – Mar 23
NYMEX costless collar	10,000 MMBtu/d	CAD$9.00	CAD$18.15	Jan 23 – Mar 23
NYMEX costless collar	10,000 MMBtu/d	CAD$9.50	CAD$17.00	Jan 23 – Mar 23

Crude oil derivative contracts

Contract Type [(1)(3)]	Notional Volume	Contract Price $/bbl	Remaining Term
WTI-MSW basis swap	2,500 bbl/d	WTI less USD$2.70	Jan 23 – Jun 23

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

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

Subsequent to December 31, 2022, the Company unwound its 30,000 MMBtu/d of natural gas costless collar derivative contracts for February and March 2023 for proceeds of $8.06 million and unwound its 20,000 MMBtu/d NYMEX fixed price swaps for February 2023 and 10,000 MMBtu/d NYMEX fixed price swaps for March 2023 for proceeds of $4.65 million.

Natural gas embedded derivative

Contract Type [(1)]	Notional Volume	Contract Price	Remaining Term
Physical delivery contract	7,458 GJ/d	Floating AESO power pool price (CAD/MWh) divided by the Fixed Heat Rate of 16.95 GJ/MWh	Jan 23 – Mar 23

(1) Alberta Electric System Operator (“AESO”)

Commencing in November 2022, the Company entered into a five-month natural gas supply agreement to deliver 7,458 GJ/d of gas to the Nova Inventory Transfer point. Under the terms of the agreement, the Company receives a price equal to the Floating AESO Power Pool Price divided by the fixed heat rate of 16.95 GJ/MWh. It was determined that the agreement contained an embedded derivative, with the embedded derivative gains reported under “Loss on derivative financial instruments” in the Consolidated Statement of Net Income and Comprehensive Net Income as of December 31, 2022.

The fair value of the embedded derivative as at December 31, 2022 is calculated by the difference between the forecasted Floating AESO Power Pool Price divided by the fixed heat rate of 16.95 GJ/MWh, less the forecasted AECO 5A price, for the remaining term of the contract.

Subsequent to December 31, 2022, the Company entered into the following commodity price risk management contracts:

Natural gas derivative contracts

Contract Type (1)	Notional Volume	Contract Price $/MMBtu	Remaining Term
NYMEX-AECO 7A basis swap	25,000 MMBtu/d	NYMEX less USD$1.10	Apr 23 – Jul 23
NYMEX-AECO 7A basis swap	35,000 MMBtu/d	NYMEX less USD$1.18	Aug 23 – Oct 23
NYMEX-AECO 5A basis swap	15,000 MMBtu/d	NYMEX less USD$1.17	Apr 23 – Oct 23
NYMEX-AECO 7A basis swap	5,000 MMBtu/d	NYMEX less USD$1.12	Nov 24 – Oct 25

(1) NYMEX Henry Hub (“NYMEX”)

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 bank debt balance as of December 31, 2022 of $11.3 million, an increase (decrease) in the market rate of interest by 25 basis points would have an insignificant impact. As at December 31, 2022, there are no interest rate risk management contracts outstanding.

Foreign exchange risk

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

As at December 31, 2022, the following foreign exchange risk management contracts are outstanding:

Contract Type	Notional Volume	Contract Price	Remaining Term
CAD/USD swap	USD$3.0 million/month	$1.3625 CAD/USD	Jan 23 – Dec 23

Gains and losses on risk management contracts

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

	Year ended December 31	
	2022	2021
Realized loss on financial derivative contracts	**(60,633)**	(16,426)
Realized gain on natural gas embedded derivative	**4,124**	-
Total realized loss on derivative financial instruments	**(56,509)**	(16,426)
Unrealized gain on financial derivative contracts	**15,146**	2,770
Unrealized gain on natural gas embedded derivative	**8,389**	-
Total unrealized gain on derivative financial instruments	**23,535**	2,770
Loss on derivative financial instruments	**(32,974)**	(13,656)

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 and natural gas embedded derivative 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.

The fair value of financial assets and liabilities, excluding working capital, is attributable to the following fair value hierarchy levels at December 31, 2022:

	Carrying Value ("CV")			Fair Value		
Balance as at December 31, 2022	Gross	Netting(1)	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	20,789	-	20,789	-	20,789	-
Natural gas embedded derivative	8,389	-	8,389	-	8,389	-
Financial liabilities						
Derivative financial instrument	1,414	-	1,414	-	1,414	-

	Carrying Value ("CV")			Fair Value		
Balance as at December 31, 2021	Gross	Netting(1)	Net CV	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instrument	5,338	-	5,338	-	5,338	-
Financial liabilities						
Derivative financial instrument	1,109	-	1,109	-	1,109	-

(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.

Credit risk

As at December 31, 2022, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

Accounts receivable and accrued sales	**December 31, 2022**	December 31, 2021
Joint venture partners	**11,080**	2,789
Oil and gas marketers	**59,271**	38,534
GST input tax credits	**2,879**	1,740
Risk management contracts	**1,669**	-
Other	**7,160**	138
ECL provision	**(984)**	(617)
Total	**81,075**	42,584

During the year ended December 31, 2022, sales to four oil and gas marketers accounted for approximately 81% of total sales. During the period ended December 31, 2021, sales to five oil and gas marketers accounted for approximately 96% of total sales. Kelt has mitigated some of its credit risk through the majority of its sales to oil and gas marketers which have been rated investment-grade by an independent ratings agency.

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

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

Liquidity risk

The Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's financial liabilities as at December 31, 2022 include accounts payable, derivative financial instruments, lease liabilities and bank debt. The Company manages liquidity risk with its budgeting process which sets out expected debt levels, capital expenditures and funds flow from operations. In addition, risk management contracts such as derivative financial instruments may be used to protect future sales. The Board of Directors approves an annual capital expenditure budget, which is regularly monitored and updated as necessary in response to changing capital requirements and expected sales.

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

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2022:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	83,288	-	-	**83,288**
Derivative financial instruments	1,414	-	-	**1,414**
Lease liability	505	543	-	**1,048**
Bank debt and estimated interest (1)	746	11,300	-	**12,046**
Total	**85,953**	**11,843**	**-**	**97,796**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 6.6% for the year ended December 31, 2022, applied to the principal balance outstanding as at that date.

Capital management

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

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

Adjusted funds from operations and annualized quarterly adjusted funds from operations

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

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

	Three months ended December 31		Year ended December 31	
	2022	2021	**2022**	2021
Cash provided by operating activities	**63,742**	52,056	**306,022**	159,714
Change in non-cash working capital	**28,742**	15,058	**17,770**	(1,903)
Settlement of decommissioning obligations	**367**	1,041	**3,200**	3,583
Adjusted funds from operations	**92,851**	68,155	**326,992**	161,394
Annualized quarterly adjusted funds from operations	**371,404**	272,620		

Net debt and net debt to annualized quarterly adjusted funds from operations ratio

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

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

	December 31, 2022	December 31, 2021
Bank debt	**11,300**	1,150
Accounts payable and accrued liabilities	**83,288**	72,453
Cash and cash equivalents	**(125)**	(719)
Accounts receivable and accrued sales	**(81,075)**	(42,584)
Prepaid expenses and deposits	**(3,599)**	(2,080)
Net debt	**9,789**	28,220
Annualized quarterly adjusted funds from operations	**371,404**	272,620
Net debt to annualized quarterly adjusted funds from operations ratio	**0.0**	0.1

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

12. INCOME TAXES

Kelt was not required to pay income taxes in the current or prior year. Tax pools and losses available to reduce taxable income as of December 31, 2022 are estimated to be approximately $768.4 million (December 31, 2021 – $774.2 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 Net Income and Comprehensive Net Income:

	Year ended December 31	
	2022	2021
Net income before income taxes	**210,199**	135,692
Canadian statutory tax rate	**23.7%**	23.1%
Expected income tax expense	**49,819**	31,293
Increase (decrease) resulting from:		
Non-deductible expenses (1)	**1,622**	976
Amortization of common control reserve	**-**	(329)
Unrecognized deferred tax assets	**-**	(10,504)
Deferred income tax expense	**51,441**	21,436

(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 8.0% 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, 2021	Recognized in profit and CI(1)	Recognized in balance sheet	Balance at December 31, 2022
Derivative financial instruments	(973)	(5,413)	-	(6,386)
PP&E and E&E	(101,641)	(21,097)	-	(122,738)
Decommissioning obligations	26,714	(6,128)	-	20,586
Lease liability	186	8	-	194
Share and debt issue costs	54	(54)	-	-
Reserve from common control transaction	(1)	1	-	-
Non-capital losses (2)	86,104	(18,758)	-	67,346
Net deferred tax asset (liability)	10,443	(51,441)	-	(40,998)

Deferred income tax asset (liability)	Balance at December 31, 2020	Recognized in profit and CI(1)	Recognized in balance sheet	Balance at December 31, 2021
Derivative financial instruments	(336)	(637)	-	(973)
PP&E and E&E	(59,382)	(42,259)	-	(101,641)
Decommissioning obligations	27,177	(463)	-	26,714
Lease liability	286	(100)	-	186
Share and debt issue costs	134	(80)	-	54
Reserve from common control transaction	(330)	329	-	(1)
Non-capital losses (2)	64,330	21,774	-	86,104
Net deferred tax asset (liability)	31,879	(21,436)	-	10,443

(1) Comprehensive income has been abbreviated as “CI”.

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

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

13. PETROLEUM AND NATURAL GAS SALES

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

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

Where Kelt is the principal to transportation arrangements, gas production sales includes variable priced contracts after the point where title is transferred to a third party. The transaction price for these contracts is based on benchmark commodity prices at a location that is different from the price at which title transfer takes place. For the year end December 31, 2022, transportation costs incurred in relation to these contracts was $12.4 million (December 31, 2021 – $9.9 million).

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

	December 31, 2022	December 31, 2021
Oil production	**240,195**	138,255
Oil treating and other	**718**	722
NGLs production	**99,973**	46,083
Gas production	**249,125**	123,728
Gas processing and other	**1,606**	1,358
Marketing revenue	**21,741**	6,617
Total petroleum and natural gas sales	**613,358**	316,763

Included in accounts receivable at December 31, 2022 is $59.3 million (December 31, 2021 - $38.5 million) of accrued oil and gas sales related to December 2022 production.

14. FINANCING EXPENSES

	Year ended December 31	
	2022	2021
Total interest expense	**1,460**	440
Accretion of decommissioning obligations [note 8]	**2,451**	2,003
Total financing expense	**3,911**	2,443

15. COMMITMENTS

As of December 31, 2022, the Company is committed to future payments under the following agreements:

	2023	2024	2025	2026	2027	Thereafter
Firm processing commitments	18,969	27,700	39,754	39,504	38,812	261,361
Firm transportation commitments	28,887	28,414	26,638	26,997	23,404	48,711
Total annual commitments	**47,856**	**56,114**	**66,392**	**66,501**	**62,216**	**310,072**

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

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

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

	Year ended December 31	
	2022	2021
Salaries and benefits [1][2]	**12,287**	9,713
Other G&A expenses	**5,521**	3,745
G&A expenses before recoveries	**17,808**	13,458
Overhead recoveries	**(7,506)**	(4,207)
G&A expense	**10,302**	9,251

(1) Refer to additional information regarding salaries and benefits paid to key management personnel in note 18 of these financial statements.

(2) 2021 salaries and benefits include $0.5 million received as part of the Canada Emergency Wage Subsidy program.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
Changes in non-cash working capital	**2022**	2021
Accounts receivable and accrued sales	**(38,491)**	(21,630)
Prepaid expenses and deposits	**(1,519)**	9,616
Accounts payable and accrued liabilities	**10,835**	35,888
Change in non-cash working capital	**(29,175)**	23,874
Relating to:		
Operating activities	**(17,770)**	1,903
Investing activities	**(11,405)**	21,971
Change in non-cash working capital	**(29,175)**	23,874

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	**2022**	2021
Interest and standby fees on bank debt	**1,068**	116
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 (note 12).

18. RELATED PARTY TRANSACTIONS

The Company has engaged a law firm where the corporate secretary 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, 2022, the Company incurred $0.4 million (December 31, 2021 – $0.2 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	
	2022	2021
Salaries, bonuses and other benefits	**2,685**	2,086
Share based compensation	**5,728**	2,959
Total compensation	**8,413**	5,045

During the year ended December 31, 2022, key management personnel were granted 1,636,500 stock options with an exercise price of $5.34 per share and 155,00 RSUs. During the year ended December 31, 2021, key management personnel were granted 1,219,000 stock options with an exercise price of $2.74 per share.