kelt exploration

MANAGEMENT'S DISCUSSION & ANALYSIS

AS AT AND FOR THE YEAR ENDED

DECEMBER 31, 2023

MANAGEMENT’S DISCUSSION & ANALYSIS

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

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

This Management’s Discussion and Analysis (“MD&A”) is dated March 7, 2024 and should be read in conjunction with the Company’s consolidated financial statements and related notes as at and for the year ended December 31, 2023. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). The Company’s Board of Directors approved and authorized the consolidated financial statements on March 7, 2024.

GENERAL ADVISORY

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

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

BASIS OF PRESENTATION

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

References to “oil” in this MD&A include crude oil and field condensate. References to “natural gas liquids” or “NGLs” include pentane, butane, propane, and ethane. References to “gas” include natural gas and sulphur.

FINANCIAL AND OPERATING SUMMARY

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
FINANCIAL PERFORMANCE						
Petroleum and natural gas sales	**129,000**	152,720	-16	**495,580**	613,358	-19
Cash provided by operating activities	**62,477**	63,742	-2	**283,224**	306,022	-7
Adjusted funds from operations (1)	**66,618**	92,851	-28	**276,200**	326,992	-16
Diluted ($/common share) (1)	**0.33**	0.47	-30	**1.40**	1.67	-16
Net income and comprehensive income	**23,729**	54,238	-56	**85,974**	158,758	-46
Diluted ($/common share)	**0.12**	0.28	-57	**0.44**	0.81	-46
Capital expenditures, net of A&D (1)	**62,695**	68,594	-9	**282,646**	317,540	-11
Bank debt	**-**	11,300	-100	**-**	11,300	-100
Net debt (1)	**12,997**	9,789	33	**12,997**	9,789	33
Return on average capital employed (%) (1)				**12**	25	-52
OPERATIONAL PERFORMANCE						
Average daily production (BOE/d)	**32,344**	28,036	15	**30,510**	27,236	12
Combined net realized price, before financial instruments (1)	**41.69**	55.91	-25	**43.01**	59.54	-28
Combined net realized price, after financial instruments (1)	**41.78**	57.57	-27	**44.36**	53.86	-18
Operating netback (1)	**23.49**	37.49	-37	**25.74**	33.98	-24
Reserves – proved plus probable (MBOE)	**413,082**	340,801	21	**413,082**	340,801	21

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

Kelt’s key financial and operating results in the fourth quarter of 2023 are highlighted by the following:

- **Production** – Fourth quarter 2023 production averaged 32,344 BOE per day (38% oil/NGLs), an increase of 15% from the fourth quarter of 2022 and an increase of 15% from the third quarter of 2023. The increase was driven by a successful drilling program and additional natural gas processing capacity that became available at the end of 2023.

- **Petroleum and natural gas sales –** For the three months ended December 31, 2023, petroleum and natural gas sales was $129.0 million, a decrease of 16% from $152.7 million in the fourth quarter of 2022. Kelt’s combined net realized price, before financial instruments of $41.69 per BOE decreased 25% from the fourth quarter of 2022.

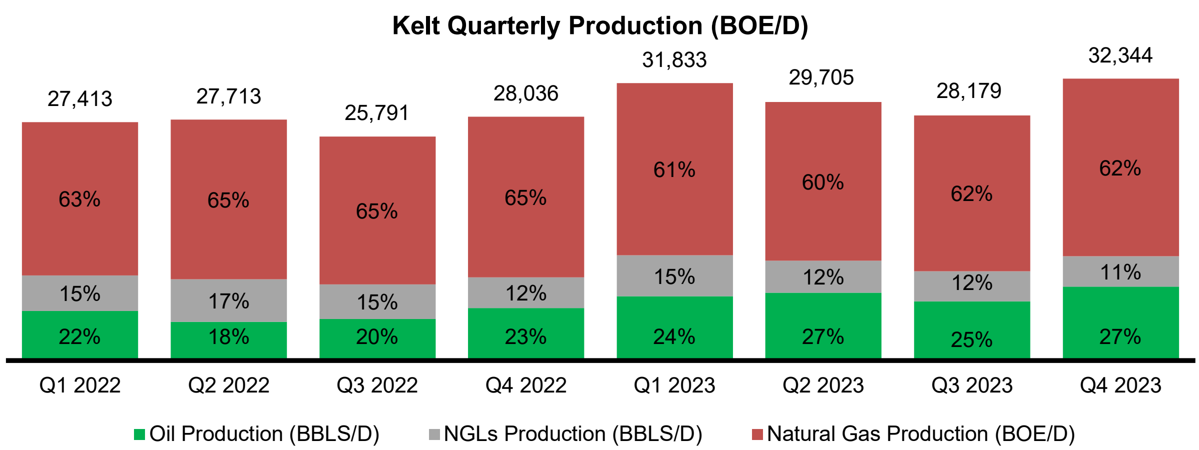
- **Operating netback** – Kelt’s operating netback of $23.49 for the quarter ended December 31, 2023 decreased by 37% from the fourth quarter of 2022. The decrease in the operating netback was driven by a decrease in net realized crude oil and natural gas prices in 2023.

- **Cash provided by operating activities and adjusted funds from operations –** Cash provided by operating activities decreased to $62.5 million in the fourth quarter of 2023 compared to $63.7 million in the fourth quarter of 2022. Adjusted funds from operations of $66.6 million during the three months ended December 31, 2023 ($0.33 per share, diluted) decreased 28% from the fourth quarter of 2022 primarily due to a decrease in petroleum and natural gas sales.

- **Net income –** Kelt reported net income of $23.7 million ($0.12 per common share, diluted) for the three months ended December 31, 2023, compared to net income of $54.2 million ($0.28 per common share, diluted) in the comparative period in 2022. The decrease in net income was primarily due to a decrease in the gain on derivative financial instruments and a decrease in petroleum and natural gas sales, driven by lower realized prices in the fourth quarter of 2023. This was partially offset by a decrease in exploration and evaluation expenses in 2023.

- **Capital investments –** During the fourth quarter of 2023, capital expenditures, net of A&D, was $62.7 million and included the drilling of 4.0 net wells and completion of 6.0 net wells. Facilities, pipeline and well equipment spend was $35.9 million.
- **Liquidity –** The Company ended the quarter with a working capital deficit of $13.0 million, and no borrowings on its credit facility of $100.0 million, other than letters of credit of $2.6 million.
- **Reserves -** The Company increases oil and gas reserves as at December 31, 2023:
    - Proved developed producing reserves of 71.1 million BOE (35% oil and NGLs), an increase of 16% from December 31, 2022;
    - Total proved reserves of 256.6 million BOE (38% oil and NGLs), an increase of 34% from December 31, 2022; and
    - Total proved plus probable reserves of 413.1 million BOE (36% oil and NGLs), an increase of 21% from December 31, 2022.

PRODUCTION



	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Average daily production:						
Oil (bbls/d) (1)	**8,832**	6,416	38	**7,979**	5,640	41
NGLs (bbls/d)	**3,422**	3,478	-2	**3,759**	4,049	-7
Gas (mcf/d)	**120,541**	108,849	11	**112,634**	105,280	7
Combined (BOE/d)	**32,344**	28,036	15	**30,510**	27,236	12
Oil and NGLs weighting	**38%**	35%	9	**38%**	36%	6

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

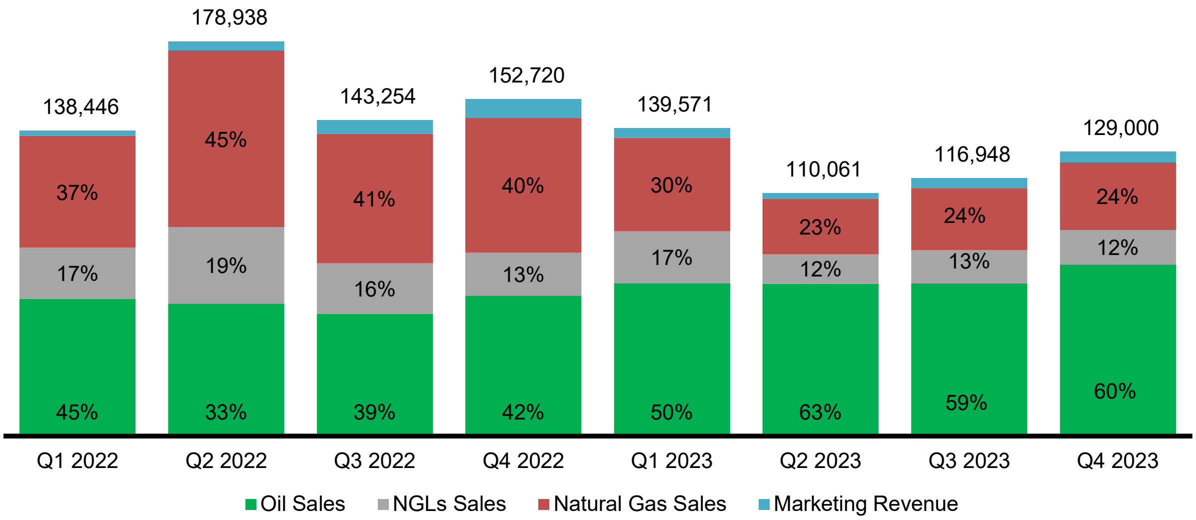
Average production for the three months ended December 31, 2023, increased 15% from the three months ended December 31, 2022. In December 2023, the Company's natural gas processing capacity at Wembley/Pipestone increased by 22 MMcf/d following the completion of a third-party plant expansion.

Average production for the year ended December 31, 2023 increased 12% from the year ended December 31, 2022. In 2023, Kelt brought 27 gross wells (25.6 net wells) on production.

Oil and NGLs weighting of total production increased in 2023 to 38% in the fourth quarter and year ended December 31, 2023, versus the 35% and 36%, respectively, in the comparable periods in 2022. The increase in the oil and NGLs weighting was due to Kelt's emphasis on drilling oilier wells in the Montney and Charlie Lake plays in 2023.

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

Kelt Quarterly Petroleum and Natural Gas Sales ($000)

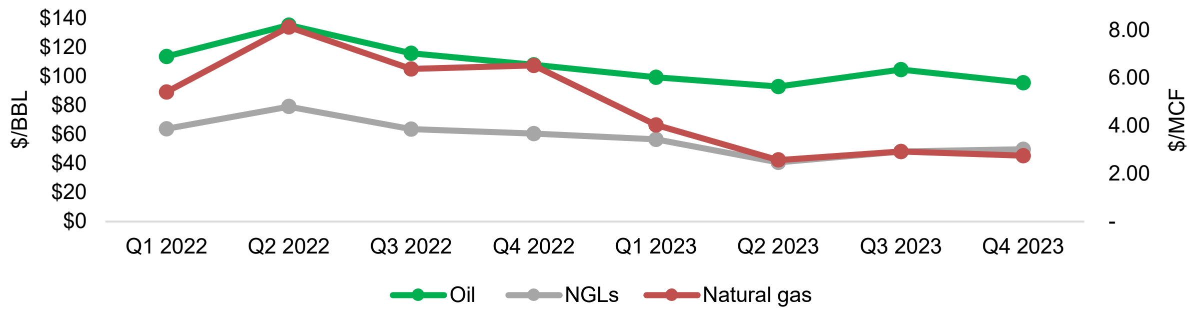


	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
P&NG Sales:						
Oil [5]	**77,652**	63,570	22	**284,867**	240,913	18
NGLs	**15,677**	19,375	-19	**67,598**	99,973	-32
Gas	**30,637**	61,166	-50	**126,299**	250,731	-50
Marketing revenue [1]	**5,034**	8,609	-42	**16,816**	21,741	-23
P&NG Sales	**129,000**	152,720	-16	**495,580**	613,358	-19
Cost of purchases [2]	**(4,952)**	(8,509)	-42	**(16,565)**	(21,438)	-23
P&NG Sales after cost of purchases [3][4][6]	**124,048**	144,211	-14	**479,015**	591,920	-19
Combined net realized price ($/BOE) [4][6]	**41.69**	55.91	-25	**43.01**	59.54	-28

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

Petroleum and natural gas sales for the fourth quarter of 2023 was $129.0 million, down 16% from $152.7 million in the fourth quarter of 2022. Petroleum and natural gas sales for the year ending December 31, 2023 was $495.6 million, down 19% from the comparable period in 2022. The decrease in P&NG sales from 2022 was primarily due to a decrease in benchmark crude oil, NGLs and natural gas prices. The decrease in benchmark prices was offset by higher production in 2023 and a higher oil weighting resulting in an overall increase in oil sales in 2023.

Kelt Quarterly Realized Prices [1]



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

	Three months ended December 31			Year ended December 31		
	2023	2022	%	**2023**	2022	%
Net realized prices [10]						
Oil ($/bbl) [9]	**95.68**	107.88	-11	**97.90**	117.18	-16
NGLs ($/bbl)	**49.79**	60.54	-18	**49.27**	67.64	-27
Gas ($/Mcf)	**2.75**	6.52	-58	**3.08**	6.63	-54
Combined ($/BOE)	**41.69**	55.91	-25	**43.01**	59.54	-28
Average benchmark prices						
Oil and NGLs						
WTI Cushing Oklahoma (US$/bbl) [1]	**78.42**	82.77	-5	**77.63**	94.80	-18
Mixed Sweet Blend Edmonton ("MSW") ($/bbl) [2]	**99.77**	110.05	-9	**100.40**	120.79	-17
Edmonton Pentane ($/bbl) [3]	**104.11**	115.46	-10	**102.75**	121.28	-15
Edmonton Butane ($/bbl) [3]	**47.95**	54.90	-13	**45.55**	61.67	-26
Edmonton Propane ($/bbl) [3]	**28.17**	39.07	-28	**29.58**	50.05	-41
Edmonton Ethane ($/bbl) [3]	**6.37**	14.48	-56	**7.33**	15.04	-51
Natural Gas						
NYMEX Henry Hub (US$/MMBtu) [6]	**2.74**	5.55	-51	**2.53**	6.38	-60
AECO 5A (CA$/MMBtu) [4]	**2.30**	5.10	-55	**2.64**	5.31	-50
Chicago Alliance, into Interstates (CA$/MMBtu) [5]	**3.08**	7.20	-57	**3.10**	7.88	-61
Dawn (CA$/MMBtu) [5]	**3.11**	7.05	-56	**3.15**	7.88	-60
Malin (CA$/MMBtu) [5]	**4.95**	19.58	-75	**6.33**	11.09	-43
Sumas (CA$/MMBtu) [5]	**4.38**	19.48	-78	**5.68**	10.70	-47
Station 2 (CA$/MMBtu) [7]	**2.05**	3.18	-36	**2.25**	4.44	-49
Marcellus (TZ4 L300) (CA$/MMBtu) [5]	**2.20**	6.88	-68	**2.12**	7.33	-71
Average exchange rate (CA$/US$) [8]	**1.3615**	1.3582	-	**1.3495**	1.3019	4

(1) Source: U.S Energy Information Administration, Canadian dollar equivalent price WTI price ("CA$WTI") is calculated based on the monthly average US dollar WTI price and the monthly average CA$/US$ exchange rate (8).

(2) Source: Tidal Energy Marketing.

(3) Source: Sproule Associates Limited.

(4) Source: Canadian Gas Price Reporter converted to CA$/MMBtu using monthly average CA$/US$ exchange rate (8).

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

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

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

(8) Source: Bank of Canada.

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

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

Combined Net Realized Price

Kelt's combined net realized price decreased 25% to $41.69 per BOE and 28% to $43.01 per BOE in the three months and twelve months ended December 31, 2023, respectively, versus the comparable periods in 2022. The decrease in the average realized price was due to a decrease in benchmark commodity prices in 2023.

Oil prices

Benchmark WTI crude oil prices decreased 5% for the quarter ended December 31, 2023 and decreased 18% for the year ended December 31, 2023 versus the comparable periods in 2022. Benchmark crude oil prices decreased in 2023 due to global crude oil being well supplied, demand growth in China was lower than expectations. Higher crude oil supply in 2023 was partially offset by a series of OPEC+ production curtailments.

NGL prices

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

For the three months and year ended December 31, 2023, realized NGL prices decreased by 18% and 27%, respectively, as compared to the same period in 2022. The decrease in both the benchmark WTI price and the Canadian benchmark condensate price resulted in an overall decrease in pentane and butane prices in 2023. The decrease in propane prices was primarily a result of an increase in North American propane production, combined with lower propane export volumes, resulting in an increase in North American propane inventories in 2023. Ethane prices are closely tied to the natural gas benchmark price, with the decrease in ethane prices in 2023 in-line with the decrease in the benchmark natural gas price.

Natural gas prices

Realized natural gas prices decreased by 58% to $2.75 per Mcf in the fourth quarter of 2023 and by 54% to $3.08 per Mcf for the year ended December 31, 2023 versus comparable periods in 2022.

Benchmark natural gas prices decreased in 2023 primarily due to higher North American natural gas production, and higher than average natural gas storage levels throughout 2023.

For the year ending December 31, 2023, Kelt sold 64% of its natural gas production at the AECO 5A and Station 2 indices compared to approximately 71% for the year ending December 31, 2022.

RISK MANAGEMENT AND HEDGING ACTIVITIES

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

The table below summarizes realized and unrealized gains (losses) on derivative financial instrument contracts:

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Realized gain (loss)	**259**	4,279	-94	**15,057**	(56,509)	127
Unrealized gain (loss)	**838**	23,177	-96	**(23,805)**	23,535	-201
Gain (loss) on derivative financial instruments	**1,097**	27,456	-96	**(8,748)**	(32,974)	-73
$ per BOE	**0.37**	10.65	-97	**(0.79)**	(3.31)	-76

The realized gain of $15.1 million recognized for the year ended December 31, 2023 was primarily due to the unwinding of the natural gas costless collars and swaps at the beginning of the year that resulted in total cash proceeds of $12.7 million. The unrealized loss of $23.8 million for the year ended December 31, 2023 reflects the changes of the fair value of outstanding contracts between December 31, 2023 and December 31, 2022.

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 of March 7, 2024, the following commodity price derivative financial instrument contracts are outstanding:

Natural gas derivative financial instrument contracts

Contract Type (1)	Notional Volume	Contract Price $/MMBtu	Remaining Term
NYMEX-AECO 7A basis swap	10,000 MMBtu/d	Monthly AECO basis calculated at 30% of the floating monthly NYMEX price	Jan 24 – Oct 24
NYMEX-AECO 7A basis swap	10,000 MMBtu/d	NYMEX less USD$1.06	Jan 24 – Oct 24
NYMEX-AECO 5A basis swap	30,000 MMBtu/d	NYMEX less USD$1.10	Nov 24 – Oct 25
NYMEX-AECO 7A basis swap	10,000 MMBtu/d	NYMEX less USD$1.06	Nov 24 – Mar 25

(1) NYMEX Henry Hub ("NYMEX")

Crude oil derivative financial instrument contracts

Contract Type (1)	Notional Volume	Contract Price	Remaining Term
WTI fixed price swap	500 bbl/d	CAD$115.00/bbl	Jan 24 – Mar 24
WTI fixed price swap	500 bbl/d	CAD$102.70/bbl	Apr 24 – Jun 24
WTI fixed price swap	500 bbl/d	CAD$103.50/bbl	Apr 24 – Jun 24
WTI fixed price swap	500 bbl/d	CAD$105.50/bbl	Jul 24 – Sep 24
Sold call option (2)	500 bbl/d	CAD$102.70/bbl	Option exercise/expiration date – Jun 28, 2024 Term if exercised: Jul 24 – Sept 24
Sold call option (2)	500 bbl/d	CAD$103.50/bbl	Option exercise/expiration date – Jun 28, 2024 Term if exercised: Jul 24 – Sept 24
Sold call option (2)	500 bbl/d	CAD$105.50/bbl	Option exercise/expiration date – Sep 30, 2024 Term if exercised: Oct 24 – Dec 24

(1) West Texas Intermediate ("WTI")

(2) The sold call options were entered into at the same time as the WTI fixed price swaps.

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

Natural gas physical delivery contracts

Contract Type	Notional Volume	Contract Price	Remaining Term
AECO-Station 2 basis differential	5,000 GJ/d	AECO 7A less CAD$0.15/GJ	Nov 24 – Mar 25

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. As at March 7, 2024, there are no interest rate derivative financial instrument 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 of March 7, 2024, the following foreign exchange derivative financial instrument contracts are outstanding:

Contract Type	Notional Volume	Contract/Exercise Price	Remaining Term
CAD/USD swap	USD$500,000/month	$1.3700 CAD/USD	Jan 24 – Dec 24
CAD/USD swap	USD$2.0 million/month	$1.3790 CAD/USD	Jul 24 – Dec 24
CAD/USD swap	USD$1.0 million/month	$1.3620 CAD/USD	Jan 25 – Dec 25
Sold call option	USD$1.0 million/month	$1.3800 CAD/USD	Option exercise date – Dec 24 Term if exercised: Jan 25 – Jun 25
Sold call option	USD$1.0 million/month	$1.3750 CAD/USD	Option exercise date – Dec 24 Term if exercised: Jan 25 – Dec 25

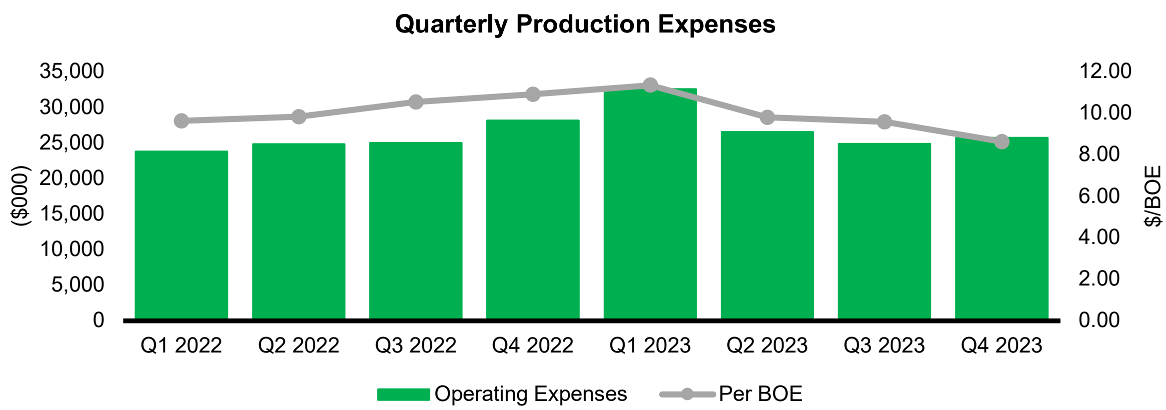
ROYALTIES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Royalties	**17,938**	15,864	13	**59,170**	65,567	-10
Average royalty rate [(1)]	**14.5%**	11.0%	32	**12.4%**	11.1%	12
$ per BOE	**6.03**	6.15	-2	**5.31**	6.60	-20

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

Kelt's average royalty rate was 14.5% during the fourth quarter of 2023, compared to 11.0% during the fourth quarter of 2022. Kelt's average royalty rate for the year ended December 31, 2023 was 12.4% compared to 11.1% for the year ended December 31, 2022. The royalty rate in 2023 is overall higher than in 2022 due to wells moving off an initial low royalty rate of 5-6% and moving to a higher royalty rate that is sensitive to commodity prices. In both 2023 and 2022 the Company's royalties in British Columbia were reduced through royalty infrastructure credits (2023 - $3.3 million, 2022 - $6.8 million).

PRODUCTION EXPENSES

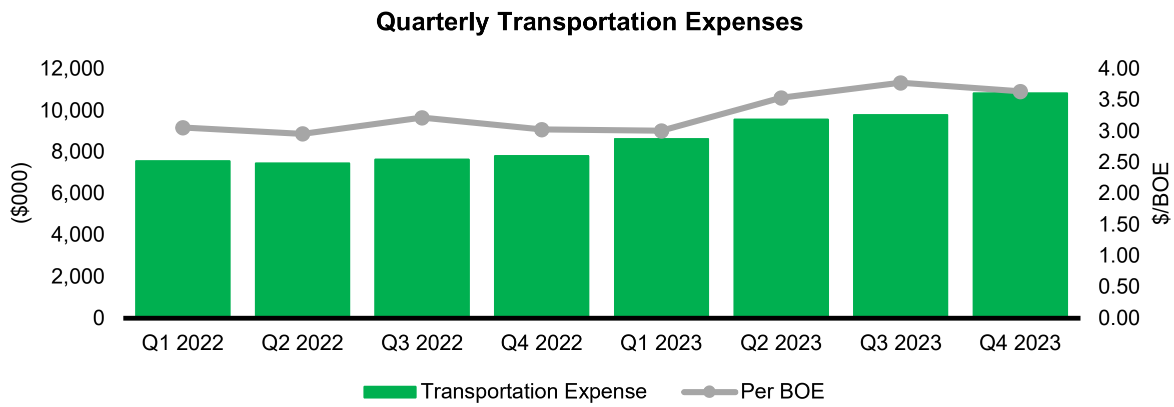


	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Production expense	**25,662**	28,116	-9	**109,422**	101,566	8
$ per BOE	**8.62**	10.90	-21	**9.83**	10.22	-4

Production expenses were $25.7 million during the fourth quarter of 2023, down 9% compared to the fourth quarter in 2022. Production expenses on a per BOE basis decreased from $10.90 per BOE during the fourth quarter of 2022 to $8.62 per BOE in the fourth quarter of 2023, with the decrease primarily due to lower electricity costs and lower field maintenance costs.

Production expenses for the year ended December 31, 2023 increased 8% from the year ended December 31, 2022. Production expenses averaged $9.83 per BOE during the year ended December 31, 2023, down from $10.22 per BOE for the year ended December 31, 2022. The decrease in production expense per BOE costs in 2023 was primarily due to operating expense credits from third-party facilities and lower electricity expenses, which was partially offset by higher trucking costs, and higher carbon taxes.

TRANSPORTATION EXPENSES



	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Transportation expense [(1)]	**10,830**	7,803	39	**38,808**	30,467	27
$ per BOE	**3.64**	3.03	20	**3.48**	3.06	14

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

Transportation expenses averaged $3.64 per BOE during the fourth quarter of 2023, an increase of 20% from $3.03 per BOE in the fourth quarter of 2022. Transportation expenses averaged $3.48 per BOE during the year ending December 31, 2023, an increase of 14% from $3.06 per BOE in the year ending December 31, 2022. The increase in transportation expenses was primarily related to additional oil transportation costs due to higher volumes.

FINANCING EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Total interest expense	**344**	581	-41	**1,310**	1,460	-10
Accretion of decommissioning obligations	**741**	721	3	**2,880**	2,451	18
Financing expense	**1,085**	1,302	-17	**4,190**	3,911	7
Interest expense per BOE [(1)]	**0.12**	0.23	-48	**0.12**	0.15	-20

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

Throughout 2023, the Company periodically drew on its credit facility and incurred standby fees, resulting in interest expense of $1.3 million.

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

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Salaries and benefits	**3,743**	4,010	-7	**13,349**	12,287	9
Other G&A expenses	**1,061**	1,357	-22	**5,292**	5,521	-4
Gross G&A expenses	**4,804**	5,367	-10	**18,641**	17,808	5
Overhead recoveries	**(1,756)**	(1,808)	-3	**(8,257)**	(7,506)	10
Net G&A expenses	**3,048**	3,559	-14	**10,384**	10,302	1
Gross G&A ($ per BOE)	**1.61**	2.08	-23	**1.67**	1.79	-7
Net G&A ($ per BOE)	**1.02**	1.38	-26	**0.93**	1.04	-11

G&A expenses are reported net of overhead recoveries. Net G&A expenses averaged $1.02 per BOE during the fourth quarter of 2023, a decrease of 26% compared to $1.38 per BOE during the fourth quarter of 2022. For the year ended December 31, 2023, net G&A expenses averaged $0.93 per BOE which decreased by 11% compared to $1.04 per BOE during the comparative period in 2022. The decrease in net G&A expenses per BOE was primarily due to higher overhead recoveries and production increasing at a higher rate than G&A expense.

SHARE BASED COMPENSATION ("SBC")

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Stock options	**1,389**	1,679	-17	**5,359**	5,902	-9
Restricted share units ("RSUs")	**763**	308	148	**2,503**	1,112	125
Total SBC expense	**2,152**	1,987	8	**7,862**	7,014	12
$ per BOE	**0.72**	0.77	-6	**0.71**	0.71	-

The increase in SBC expense for the three and year ended December 31, 2023 compared to the same periods in 2022 is primarily due to more RSUs being granted compared to stock options in 2023.

As at December 31, 2023, stock options and RSUs outstanding represent 5.9% of total shares outstanding (December 31, 2022 – 5.9%).

EXPLORATION AND EVALUATION ("E&E") EXPENSES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Exploration and evaluation expense	**100**	14,438	-99	**1,413**	14,484	-90
$ per BOE	**0.03**	5.60	-99	**0.13**	1.46	-91

E&E expenses were $1.4 million in the year ended December 31, 2023 as compared to $14.5 million for the year ended December 31, 2023. During the fourth quarter of 2022, the Company expensed $14.2 million of exploratory drilling costs for two exploration wells.

DEPLETION AND DEPRECIATION

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Depletion and depreciation	**32,839**	28,182	17	**125,813**	116,183	8
$ per BOE	**11.04**	10.93	1	**11.30**	11.69	-3

Depletion and depreciation expense of $32.8 million for the quarter ended December 31, 2023 increased by 17% from $28.2 million in the comparable period in 2022. Depletion and depreciation expense for the year ended December 31, 2023 increased by 8% as compared to the prior year. On a per BOE basis, the depletion and depreciation expense per BOE decreased slightly in 2023, due to increased reserves compared to 2022.

Based on its assessment as of December 31, 2023, 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.

INCOME TAXES

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Deferred income tax expense	**7,895**	16,412	-52	**28,503**	51,441	-45
Net income before taxes	**31,624**	70,650	-55	**114,477**	210,199	-46
Effective tax rate	**25.0%**	23.2%	7	**24.9%**	24.5%	2

Kelt's consolidated combined federal and provincial statutory tax rate averaged 23.3% and 23.9% during the three months ended December 31, 2023 and 2022, respectively.

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, 2023 are estimated to be approximately $780.4 million as summarized in the table below.

(CA$ thousands, except as otherwise indicated)	Rate	**December 31 2023**	December 31 2022	%
Canadian oil and gas property expenses (COGPE)	10-15%	**60,905**	66,848	-9
Canadian development expenses (CDE)	30-45%	**241,162**	192,737	25
Canadian exploration expenses (CEE)	100%	**407**	-	-
Undepreciated capital cost (1) (UCC)	25-37.5%	**230,290**	228,487	1
Share and debt issue costs	5 years	**-**	8	-100
Non-capital losses (2) (NCL)	100%	**247,657**	280,308	-12
Estimated tax deductions available, end of period		**780,421**	768,388	2

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

(2) The Company's non-capital losses expire in years 2033 to 2042.

ADJUSTED FUNDS FROM OPERATIONS

The following table provides a continuity of income and expenses included in the Company's calculation of operating income, operating netback and adjusted funds from operations generated during the three months and year ended December 31, 2023 and 2022 respectively.

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Petroleum and natural gas sales	**129,000**	152,720	-16	**495,580**	613,358	-19
Cost of purchases	**(4,952)**	(8,509)	-42	**(16,565)**	(21,438)	-23
Realized gain (loss) on financial instruments (1)	**259**	4,279	-94	**15,057**	(56,509)	127
Royalties	**(17,938)**	(15,864)	13	**(59,170)**	(65,567)	-10
Production expense	**(25,662)**	(28,116)	-9	**(109,422)**	(101,566)	8
Transportation expense	**(10,830)**	(7,803)	39	**(38,808)**	(30,467)	27
Operating Income (2)	**69,877**	96,707	-28	**286,672**	337,811	-15
Financing expense (3)	**(344)**	(581)	-41	**(1,310)**	(1,460)	-10
G&A expense	**(3,048)**	(3,559)	-14	**(10,384)**	(10,302)	1
Gain (loss) on foreign exchange	**(102)**	219	-147	**(104)**	788	-113
Other income	**235**	65	262	**1,326**	155	755
Adjusted funds from operations (2)	**66,618**	92,851	-28	**276,200**	326,992	-16
Basic ($ per common share) (4)	**0.34**	0.48	-29	**1.43**	1.71	-16
Diluted ($ per common share) (4)	**0.33**	0.47	-30	**1.40**	1.67	-16

	Three months ended December 31			Year ended December 31		
($ per BOE)	**2023**	2022	%	**2023**	2022	%
Petroleum and natural gas sales	**43.35**	59.21	-27	**44.51**	61.70	-28
Cost of purchases	**(1.66)**	(3.30)	-50	**(1.50)**	(2.16)	-31
Realized gain (loss) on financial instruments (1)	**0.09**	1.66	-95	**1.35**	(5.68)	124
Royalties	**(6.03)**	(6.15)	-2	**(5.31)**	(6.60)	-20
Production expense	**(8.62)**	(10.90)	-21	**(9.83)**	(10.22)	-4
Transportation expense	**(3.64)**	(3.03)	20	**(3.48)**	(3.06)	14
Operating Netback (2)	**23.49**	37.49	-37	**25.74**	33.98	-24
Financing expense (3)	**(0.12)**	(0.23)	-48	**(0.12)**	(0.15)	-20
G&A expense	**(1.02)**	(1.38)	-26	**(0.93)**	(1.04)	-11
Gain (loss) on foreign exchange	**(0.03)**	0.09	-133	**(0.01)**	0.08	-113
Other income	**0.08**	0.03	167	**0.12**	0.02	500
Adjusted funds from operations (2)	**22.40**	36.00	-38	**24.80**	32.89	-25

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

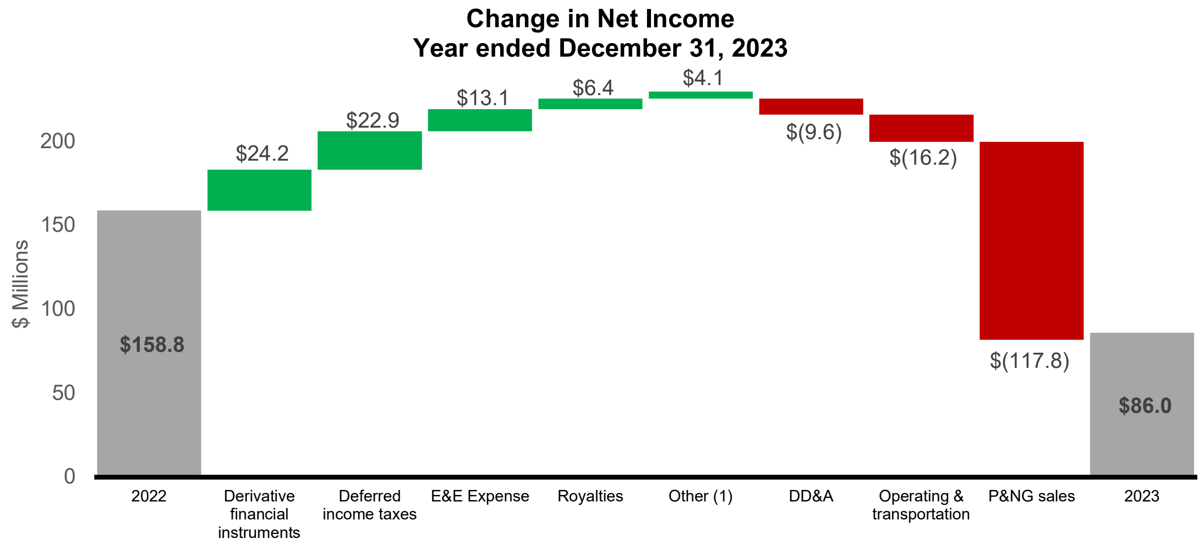
(2) Refer to advisories regarding "Non-GAAP and Other Financial Measures".

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

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

During the three months ended December 31, 2023, adjusted funds from operations of $66.6 million ($0.33 per share, diluted) decreased by 28% from $92.9 million ($0.47 per share, diluted) in the fourth quarter of 2022. During the year ended December 31, 2023, adjusted funds from operations of $276.2 million ($1.40 per share, diluted) decreased by 16% from $327.0 million ($1.67 per share, diluted) during the year ended December 31, 2022. The decrease in adjusted funds from operations for both the three and year ended December 31, 2023 compared to the same periods in 2022 was primarily due to a decrease in petroleum and natural gas sales.

NET INCOME AND COMPREHENSIVE INCOME



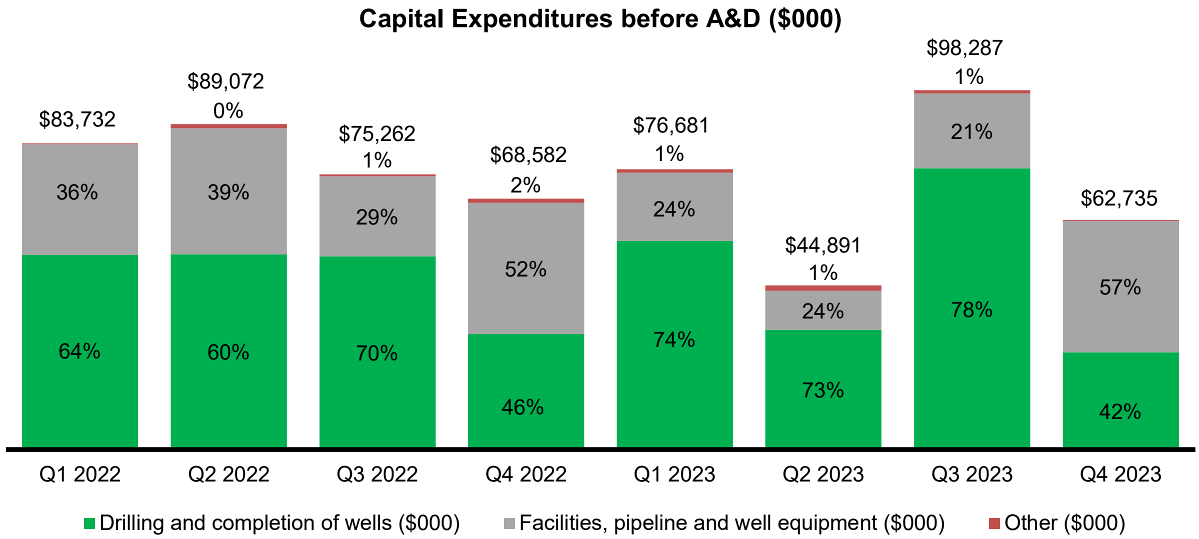
(1) Other includes changes in net income related primarily to cost of purchases, and foreign exchange gain (loss).

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Net income and comprehensive income	**23,729**	54,238	-56	**85,974**	158,758	-46
$ per common share, basic	**0.12**	0.28	-57	**0.45**	0.83	-46
$ per common share, diluted (1)	**0.12**	0.28	-57	**0.44**	0.81	-46
$ per BOE	**8.01**	21.05	-62	**7.71**	15.96	-52
Wtd avg. shares outstanding, basic (000s)	**194,359**	191,812	1	**193,116**	191,101	1
Wtd avg. shares outstanding, diluted (000s) (1)	**199,223**	195,828	2	**197,063**	195,456	1

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

Net income was $23.7 million ($0.12 per common share, diluted) for the three months ended December 31, 2023, compared to a net income of $54.2 million ($0.28 per common share, diluted) in the same three-month period of 2022. Net income was $86.0 million ($0.44 per common share, diluted) for the year ended December 31, 2023, compared to a net income of $158.8 million ($0.81 per common share, diluted) in the same period of 2022. The decrease in net income was primarily driven by a reduction in benchmark commodity prices in 2023, which was more than offset by higher production levels.

INVESTING ACTIVITIES



CAPITAL EXPENDITURES

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

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2023**	2022	%	**2023**	2022	%
Capital expenditures:						
Lease acquisition and retention	**141**	465	-70	**1,668**	1,509	11
Geological and geophysical	**77**	531	-85	**1,162**	623	87
Drilling and completion of wells	**26,545**	31,558	-16	**193,175**	191,026	1
Facilities, pipeline and well equipment	**35,918**	35,928	-	**85,834**	122,662	-30
Corporate assets	**54**	100	-46	**755**	828	-9
Capital expenditures, before A&D (1)	**62,735**	68,582	-9	**282,594**	316,648	-11
Property acquisitions	**6,510**	62	-	**7,022**	3,462	103
Property dispositions	**(6,550)**	(50)	-	**(6,970)**	(2,570)	171
Capital expenditures, net of A&D (1)	**62,695**	68,594	-9	**282,646**	317,540	-11

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

Capital expenditures, before A&D, decreased 9% in the fourth quarter of 2023 and decreased 11% from the year ended December 31, 2023 versus the comparable period in 2022.

In the fourth quarter of 2023, drilling and completion costs of $26.6 million included the drilling of 4.0 net wells and completion of 6.0 net wells. Kelt's facility, pipeline and well equipment spending in the fourth quarter of 2023 of $35.9 million included a new compressor station at Wembley/Pipestone, well equipment and pipeline construction.

For the year ended December 31, 2023, drilling and completion costs of $193.2 million included the drilling of 27.0 net wells and completion of 24.0 net wells. The wells drilled included 21 gross (21 net) Montney wells and 7 gross (5.0 net) Charlie Lake wells.

Gross Wells	Three months ended December 31 2023	2022	%	Year ended December 31 2023	2022	%
Drilling	**4**	3	33	**28**	31	-10
Completion	**6**	7	-14	**25**	35	-29
Service	**-**	-	-	**2**	-	-

Net Wells	Three months ended December 31 2023	2022	%	Year ended December 31 2023	2022	%
Drilling	**4.0**	3.0	33	**27.0**	28.4	-5
Completion	**6.0**	6.0	-	**24.0**	32.1	-25
Service	**-**	-	-	**2.0**	-	-

LAND HOLDINGS

The table below sets-out Kelt's significant Montney and Charlie Lake land holdings across British Columbia and Alberta as at December 31, 2023.

MONTNEY RIGHTS	**Net Acres**	Net Sections
British Columbia	**193,607**	303
Alberta	**146,187**	228
Total	**339,794**	531
CHARLIE LAKE RIGHTS		
Alberta	**87,667**	137

CAPITAL RESOURCES AND LIQUIDITY

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

At December 31, 2023 the Company has a $100.0 million credit facility available from a syndicate of financial institutions. As at December 31, 2023, there were no borrowings outstanding under the Credit Facility, with outstanding letters of credit of $2.6 million. The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period on amounts drawn 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.

	December 31, 2023	December 31, 2022
Bank debt	-	11,300
Accounts payable and accrued liabilities	85,171	83,288
Cash and cash equivalents	(14,340)	(125)
Accounts receivable and accrued sales	(52,646)	(81,075)
Prepaid expenses and deposits	(5,188)	(3,599)
Net debt (1)	12,997	9,789
Adjusted funds from operations (1)	276,200	326,992
Net debt to adjusted funds from operations ratio (1)	0.0	0.0

(1) Refer to advisories regarding Capital Management Measures.

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

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

The table below outlines a contractual maturity analysis for Kelt's financial liabilities as at December 31, 2023:

	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	85,171	-	-	85,171
Derivative financial instruments	585	-	-	585
Lease liability	1,125	332	-	1,457
Total	**86,881**	**332**	**-**	**87,213**

COMMITMENTS

As of December 31, 2023, the Company is committed to future payments under the following agreements:

	2024	2025	2026	2027	2028	Thereafter
Firm processing commitments	33,726	50,021	60,301	60,341	63,230	461,559
Firm transportation commitments	35,187	36,244	35,415	32,482	31,059	139,839
Total commitments	**68,913**	**86,265**	**95,716**	**92,823**	**94,289**	**601,398**

In 2023, the Company entered into two gas processing agreements with third-party midstream companies. The gas processing facilities are expected to become operational in mid-2025 and early 2026 resulting in an increase of approximately $220.0 million to commitments as of December 31, 2023.

SHARE INFORMATION

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2023 there were 194.5 million common shares issued and outstanding. There are no preferred shares issued or outstanding.

At December 31, 2023, officers, directors, and employees have been granted options to purchase 10.0 million common shares of the Company at an average exercise price of $3.74 per common share. In addition, there are 1.7 million RSUs outstanding.

The following table outlines Kelt's common share trading activity during 2023 and 2022:

SHARE TRADING ACTIVITY (KEL)	2023	2022
High ($)	**8.16**	8.32
Low ($)	**4.29**	4.67
Close ($)	**5.72**	5.01
Volume traded (thousands)	**111,257**	125,751
Value traded ($ thousands)	**638,458**	759,986
Weighted average trading price ($)	**5.74**	6.04

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, 2023, the Company incurred $0.4 million (December 31, 2022 – $0.4 million) in disbursements to related parties in the normal course of business.

OFF-BALANCE SHEET TRANSACTIONS

The Company did not engage in any off-balance sheet transactions during the periods ended December 31, 2023 and 2022.

RESERVES

Kelt retained Sproule Associates Limited ("Sproule"), an independent qualified reserve evaluator to prepare a report on its oil and gas reserves (the "Sproule Report"). The Company has a Reserves Committee which oversees the selection, qualifications and reporting procedures of the independent engineering consultants. Reserves as at December 31, 2023 and at December 31, 2022 were determined using the guidelines and definitions set out under National Instrument 51-101 ("NI 51-101"). The Sproule Report is effective as of December 31, 2023. More information on the Company's reserves are included in the Annual Information Form as at December 31, 2023, dated March 7, 2024, which can be found at www.sedarplus.ca.

At December 31, 2023, Kelt's proved plus probable reserves were 413.1 million BOE, up 21% from 340.8 million BOE at December 31, 2022. The Company's net present value of proved plus probable reserves at December 31, 2023, discounted at 10% before-tax, was $4.5 billion, an increase of 32% from $3.4 billion at December 31, 2022. Sproule's forecast commodity prices for 2024 which were used to determine the present value of the Company's reserves at December 31, 2023, are US$76.00 per barrel for WTI oil and US$2.75 per MMBtu for NYMEX Henry Hub.

At December 31, 2023, the weighting of proved plus probable reserves was 36% oil/NGLs and 64% natural gas. At December 31, 2022, the weighting of proved plus probable reserves was 38% oil/NGLs and 62% natural gas.

The following table outlines a summary of the Company's reserves volumes at December 31, 2023:

SUMMARY OF RESERVE VOLUMES	Crude Oil (Mbbls)	Liquids(1) (Mbbls)	Natural Gas (MMcf)	Combined (MBOE)	FDC Costs ($ thousands)
Proved developed producing	12,852	11,848	278,283	**71,081**	**-**
Proved	50,859	46,296	956,575	**256,584**	**1,768,370**
Proved plus Probable	74,745	74,418	1,583,515	**413,082**	**2,467,126**

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

CHANGE IN RESERVES – YEAR OVER YEAR (MBOE)	December 31 2023	December 31 2022	% Change
Proved developed producing	**71,081**	61,062	16
Proved	**256,584**	192,073	34
Proved plus Probable	**413,082**	340,801	21

The following table outlines forecasted future prices that Sproule has used in their evaluation of the Company's reserves at December 31, 2023:

FUTURE COMMODITY PRICE FORECAST	WTI Cushing Oklahoma US$/bbl	Canadian Light Sweet CA$/bbl	NYMEX Henry Hub US$/MMBtu	AECO-C Spot CA$/GJ	USD/CAD Exchange US$/CA$
2024	76.00	97.33	2.75	2.21	1.333
2025	76.00	97.25	3.75	3.45	1.333
2026	76.00	97.17	4.00	3.75	1.333
2027	77.52	99.12	4.08	3.82	1.333
2028	79.07	101.10	4.16	3.90	1.333
Five year average	**76.92**	**98.39**	**3.75**	**3.43**	1.333

The following table summarizes the net present value of the Company's reserves (before-tax) as at December 31, 2023:

NET PRESENT VALUE (BEFORE-TAX) *(CA$ millions)*	Undiscounted	NPV 5% BT	NPV 10% BT
Proved developed producing	1,258,157	1,104,595	948,144
Proved	5,302,740	3,765,421	2,827,673
Proved plus Probable	9,185,863	6,206,924	4,515,374

NET ASSET VALUE

The Company estimates its net asset value to be $4.7 billion or $22.75 per common share as at December 31, 2023 based on the present value of its 2P reserves before-tax, discounted at 10%. The components of Kelt's net asset value calculation are set-forth in the table below. The reader is cautioned that these amounts may not be directly comparable to other companies, as the term "Net asset value" does not have a standardized meaning under GAAP or NI 51-101. The net present value of petroleum and natural gas ("P&NG") reserves was determined by Sproule in their year-end evaluation reports, based on a discount rate of 10% before-tax. Undeveloped land at December 31, 2023 was internally valued at an average price of $381 per acre (2022 – $344 per acre). Management believes that the "Net asset value" provides a useful measure to analyze the comparative change in the Company's estimated value on a normalized basis.

(CA$ thousands, except per share amounts)	December 31, 2023	December 31, 2022
Present value of 2P P&NG reserves, discounted at 10% before-tax (1)	**4,515,374**	3,430,114
Undeveloped land (2)	**140,191**	129,396
Net (debt) surplus (3)	**(12,997)**	(9,789)
Proceeds from exercise of stock options (3)(4)	**33,767**	18,353
Net asset value	**4,676,335**	3,568,074
Common shares, RSU's and "in the money" stock options (000s) (4)	**205,590**	199,706
Net asset value ($ per common share) (3)	**22.75**	17.87

(1) As estimated by Sproule at December 31, 2023. The present value of 2P reserves includes undiscounted future development capital of $2.5 billion.

(2) The undeveloped land value is based on internal estimates of Kelt's undeveloped lands which do not have reserves assigned.

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

(4) The calculation of proceeds from exercise of stock options and the diluted number of common shares outstanding only include stock options that are "in-the-money" based on the closing price of KEL of $5.72 on December 31, 2023. All outstanding RSUs are included in diluted common shares outstanding.

SUMMARY OF QUARTERLY RESULTS

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

(CA$ thousands, except as otherwise indicated)	**Q4 2023**	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Petroleum and natural gas sales	**129,000**	116,948	110,061	139,571	152,720	143,254	178,938	138,446
Royalties	**(17,938)**	(15,468)	(7,472)	(18,292)	(15,864)	(16,697)	(18,152)	(14,854)
Revenue	**111,062**	101,480	102,589	121,279	136,856	126,557	160,786	123,592
Cash provided by operating activities	**62,477**	52,424	68,163	100,160	63,742	85,104	91,623	65,553
Adjusted funds from operations (1)	**66,618**	58,772	58,810	92,000	92,851	65,189	94,783	74,169
Per share – basic ($/common share) (1)	**0.34**	0.30	0.31	0.48	0.48	0.34	0.50	0.39
Per share – diluted ($/common share) (1)	**0.33**	0.30	0.30	0.47	0.47	0.33	0.48	0.38
Net income and comprehensive income	**23,729**	20,060	25,799	16,336	54,238	23,089	70,711	10,720
Per share – basic ($/common share)	**0.12**	0.10	0.13	0.09	0.28	0.12	0.37	0.06
Per share – diluted ($/common share)	**0.12**	0.10	0.13	0.08	0.28	0.12	0.36	0.06
Capital expenditures, net of A&D (1)	**62,695**	98,287	45,035	76,629	68,594	76,181	89,072	83,693
Total assets	**1,260,292**	1,222,412	1,174,609	1,174,489	1,128,104	1,078,619	1,035,372	967,119
Bank debt	**-**	-	-	-	11,300	-	-	-
Net debt (surplus) (1)	**12,997**	15,917	(18,580)	(4,899)	9,789	33,537	23,117	34,685
Shareholders' equity	**1,003,663**	976,146	948,215	919,809	901,424	845,103	818,734	739,673
Average daily production (BOE/d)	**32,344**	28,179	29,705	31,833	28,036	25,791	27,713	27,413
Combined net realized price ($/BOE) (1)(2)	**41.78**	42.68	38.64	54.00	57.57	48.97	58.50	49.96
Operating income ($/BOE) (1)	**23.49**	23.36	22.55	33.27	37.49	28.19	38.52	31.26
Operating netback % of combined net realized price (2)	**56%**	55%	58%	62%	65%	58%	66%	63%

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

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

In 2022, crude oil prices were impacted by a number of factors including the Russian and Ukrainian conflict, the US releasing crude oil from its strategic reserves, continued COVID-19 lockdowns in China, and rising lending rates impacting global demand of crude oil. Crude oil prices in the first and second quarter of 2023 decreased from the average price in 2022 as demand growth in the OECD countries slowed and crude oil demand from China came in below expectations, while crude oil remained relatively well supplied globally. In the third quarter of 2023, crude oil increased compared to the first and second quarters of 2023 as OPEC+ announced additional production curtailments.

North American benchmark natural gas prices in the first half of 2022 were well supported due to record LNG exports, below average inventory levels and increased North American demand. However, increasing US and Canadian production in 2022, and the shut-in of a US LNG export facility in June 2022 resulted in rising North American inventory levels, and a decrease in North American benchmark natural gas prices in the fourth quarter of 2022 and into 2023. Natural gas prices in 2023 continued to be impacted by North American production growth and lower demand from a warmer than average winter resulting in higher than average natural gas inventory levels.

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

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

SELECTED ANNUAL INFORMATION

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

(CA$ thousands, except as otherwise indicated)	**2023**	2022	2021
Petroleum and natural gas sales	**495,580**	613,358	316,763
Royalties	**(59,170)**	(65,567)	(27,414)
Revenues	**436,410**	547,791	289,349
Cash provided by operating activities	**283,224**	306,022	159,714
Adjusted funds from operations (1)	**276,200**	326,992	161,394
Per share – basic ($/common share) (1)	**1.43**	1.71	0.85
Per share – diluted ($/common share) (1)	**1.40**	1.67	0.85
Net income and comprehensive income	**85,974**	158,758	114,256
Per share – basic ($/common share)	**0.45**	0.83	0.61
Per share – diluted ($/common share)	**0.44**	0.81	0.60
Capital expenditures, net of A&D (1)	**282,646**	317,540	213,511
Total assets	**1,260,292**	1,128,104	913,497
Bank debt	**-**	11,300	1,150
Net debt (1)	**12,997**	9,789	28,220
Shareholders' equity	**1,003,663**	901,424	722,724
Return on average capital employed (%) (1)	**12**	25	20
Average daily production (BOE/d)	**30,510**	27,236	20,987
Combined net realized price ($/BOE) (1)(2)	**44.36**	53.86	38.38
Operating netback ($/BOE) (1)	**25.74**	33.98	22.29
Operating netback as a % of combined net realized price (2)	**58%**	63%	58%

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

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

OUTLOOK AND GUIDANCE

The table below compares the Company's previously forecasted assumptions and expected financial and operating results for 2023 to actual 2023 results:

(CA$ millions, except as otherwise indicated)	**2023 Actuals**	2023 Budget	% Change (2)
Average Production			
Oil and NGLs (bbls/d)	**11,738**	11,910 –12,660	-4
Gas (MMcf/d)	**112.6**	111.5 – 114.5	-
Combined (BOE/d)	**30,510**	30,500 – 31,750	-2
Forecasted Average Commodity Prices			
WTI oil price (US$/bbl)	**77.63**	78.50	-1
Canadian Light Sweet ($/bbl)	**100.40**	101.58	-1
NYMEX natural gas price (US$/MMBtu)	**2.53**	2.60	-3
AECO natural gas price ($/GJ)	**2.50**	2.62	-4
Average Exchange Rate (US$/CA$)	**0.7410**	0.7427	-

(CA$ millions, except as otherwise indicated)	2023 Actuals	2023 Budget	% Change (2)
Capital Expenditures			
Drilling & Completions	**193.2**	188.0	3
Equipment, Facilities & Pipeline Infrastructure	**85.8**	88.0	-2
Land, Seismic and A&D	**3.6**	9.0	-60
Capital Expenditures, net of A&D (1)	**282.6**	285.0	-1
Petroleum and natural gas sales	**495.6**	509.0	-3
Adjusted funds from operations (1)	**276.2**	280.0	-1
Per common share, diluted (1)	**1.40**	1.42	-1
Net debt (surplus), at year end (1)	**13.0**	11.3	15
Weighted average common shares outstanding (millions) (1)	**193.1**	192.7	-

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

(2) Percent change for production is calculated using the mid-point of each production range.

Kelt's financial results for the year ended December 31, 2023 was largely within its previous guidance.

2024 BUDGET

Crude oil prices remain volatile amid geopolitical impact on supply and concerns of slowing global economic growth. The WTI crude oil price averaged US$74.15 per barrel during January 2024. Kelt has reduced its forecasted average 2024 WTI oil price by 6% from US$80.00 per barrel to US$75.00 per barrel. North American natural gas prices have dropped after a warm winter, resulting from a strong El Niño weather pattern. This reduced heating related natural gas demand significantly which led to above average gas storage levels. Kelt has reduced its forecasted average 2024 NYMEX Henry Hub natural gas price by 26% from US$3.50/MMBtu to US$2.60 MMBtu and the Company has reduced its forecasted average 2024 AECO natural gas price by 30% from CA$3.16/GJ to CA$2.20/GJ.

In response to lower forecasted natural gas prices, Kelt has reduced its 2024 capital expenditure program to $325.0 million, down 7% from its previous budget of $350.0 million. Kelt expects to drill 29 net wells in 2024, down 15% from its previous budget of 34 net wells. Three of the five wells that have been deferred are at Oak and the other two wells are at Pouce Coupe. The Company will focus its 2024 capital program on wells that have a higher oil weighting.

Despite a reduced capital expenditure program for 2024, the Company has not changed its previous 2024 average production guidance of 36,000 to 39,000 BOE per day.

Using the revised commodity price forecasts for 2024, Kelt is forecasting 2024 adjusted funds from operations of $290.0 million ($1.46 per common share, diluted), down 17% from its previous forecast. Kelt estimates net debt of $48 million at the end of December 31, 2023, an increase of $36.7 million from its previous forecast.

A 10% increase/decrease in the Company's forecasted oil/NGLs price for 2024 would increase/decrease forecasted adjusted funds from operations by approximately $29.6 million. A 10% increase/decrease in the Company's average gas price forecasted for 2023 would increase/decrease adjusted funds from operations by approximately $12.7 million.

The table below outlines the Company's updated forecast for 2024 with a comparison to the previously announced guidance included in Kelt's press release dated November 9, 2023 and a comparison to 2023 actuals:

(CA$ millions, except as otherwise indicated)	**Current 2024 Budget**	Previous 2024 Guidance (Nov 9, 2023)	% Change to Current 2024 Budget	**2023 Actuals**	Current 2024 Budget % Change to 2023 Actuals
Average Production					
Oil and NGLs (bbls/d)	**14,250 –15,750**	14,250 –15,750	-	**11,738**	28
Gas (MMcf/d)	**130.5 – 139.5**	130.5 – 139.5	-	**112.6**	20
Combined (BOE/d)	**36,000 – 39,000**	36,000 – 39,000	-	**30,510**	23
Forecasted Average Commodity Prices					
WTI oil price (US$/bbl)	**75.00**	80.00	-6	**77.63**	-3
Canadian Light Sweet ($/bbl)	**96.66**	102.68	-6	**100.40**	-4
NYMEX natural gas price (US$/MMBtu)	**2.60**	3.50	-26	**2.53**	3
AECO natural gas price ($/GJ)	**2.20**	3.16	-30	**2.50**	-12
Average Exchange Rate (US$/CA$)	**0.7348**	0.7353	-	**0.7410**	1
Capital Expenditures					
Drilling & Completions	**225.0**	247.0	-9	**193.2**	16
Equipment, Facilities & Pipeline Infrastructure	**80.0**	83.0	-4	**85.8**	-7
Land, Seismic and A&D	**20.0**	20.0	-	**3.6**	456
Capital Expenditures, net of A&D (1)	**325.0**	350.0	-7	**282.6**	15
Petroleum and natural gas sales	**583.0**	670.0	-13	**495.6**	18
Adjusted funds from operations (1)	**290.0**	350.0	-17	**276.2**	5
Per common share, diluted (1)	**1.46**	1.76	-17	**1.40**	4
Net debt (surplus), at year end (1)	**48.0**	11.3	325	**13.0**	269
Weighted average common shares outstanding (millions) (1)	**194.7**	194.7	-	**193.1**	1

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

Kelt expects to maintain a strong balance sheet, giving the Company the ability to take advantage of opportunities as they arise. The Company's capital expenditure program is also flexible, with the ability to increase or decrease expenditures into the future if the economic environment changes.

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

The information set out herein is "financial outlook" within the meaning of applicable securities laws. See the "Advisory regarding forward-looking statements" section below for additional information.

SIGNIFICANT JUDGMENTS AND ESTIMATES

The material accounting policies applied by the Company are disclosed in note 3 of the consolidated financial statements as at and for the year ended December 31, 2023. 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 the consolidated annual financial statements are discussed below.

- Estimates are used in the evaluation of proved and proved plus probable reserves. Reserve estimates are based on production forecasts, future production costs, forecasted commodity prices and future development capital. Proved reserves and future development capital are used to deplete the net carrying value of property, plant, and equipment ("PP&E"). Proved plus probable reserves are used to measure the fair value less cost of disposal ("FVLCD") in calculating impairment of PP&E. Reserves also impact the 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 or whether an impairment exists;
- 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. The FVLCD is calculated on a CGU basis to determine whether there is an impairment of PP&E;
- The determination of the value of decommissioning liabilities depends upon estimates of future costs, timing of expenditures, the risk-free rate and inflation rate;
- 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; and
- Estimates and assumptions are used in the Black-Scholes option pricing model to calculate the stock option expense.

For more details regarding the Company's use of estimates and judgements, refer to note 2c) of the consolidated financial statements as at and for the year ended December 31, 2023.

DISCLOSURE CONTROLS AND PROCEDURES

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

The CEO and the CFO have evaluated the effectiveness of Kelt's disclosure controls and procedures as at December 31, 2023 and have concluded that such disclosure controls and procedures are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There were no significant changes to the Company's internal controls over financial reporting during the interim period from October 1, 2023 to December 31, 2023 and year ended December 31, 2023. The CEO and the CFO have evaluated the effectiveness of Kelt's internal controls over financial reporting as at December 31, 2023 and have concluded that such internal controls over financial reporting are effective. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

BUSINESS RISKS

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

- Reservoir quality and the uncertainty of reserves estimates;
- Volatility in the prevailing prices of crude oil, NGLs and natural gas;
- Inflation and its impact on the cost of services and capital projects;
- The actions of OPEC+ on global oil supply and its impact on price;
- Regulatory risk related to the approval for exploration and development activities, which can add to costs or cause delays in projects;
- Environmental impact risk associated with exploration and development activities, including GHG emissions;
- Shifts in demand as global energy markets transition to a lower carbon-based economy.
- Future legislative and regulatory developments related to environmental regulation;
- Geopolitical risks associated with changing governments or governmental policies, social instability and other political, economic or diplomatic developments in the regions where the Company has its operations;
- The ability to find, produce and replace reserves at a reasonable cost, including the risk of reserve revisions due to economic and technical factors. Reserve revisions can have a positive or negative impact on asset valuations, asset retirement obligations, lending capacity and depletion rates;
- Access to labor, equipment and services to complete projects in a timely and cost efficient manner;
- Operating hazards inherent in the exploration, development, production and sale of crude oil and natural gas;
- Credit risk related to non-payment for sales contracts or other counterparties;
- Interest rate risk associated with the Company's cost to borrow and ability to secure financing on commercially acceptable terms;
- Foreign exchange risk as commodity sales are predominantly based on US dollar denominated benchmarks;
- Business interruptions because of unexpected events such as fires or explosions whether caused by human error or nature, severe storms and other calamitous acts of nature, blowouts, freeze-ups, mechanical or equipment failures of facilities and infrastructure and other similar events affecting the Company or other parties whose operations or assets directly or indirectly impact the Company and that may or may not be financially recoverable;
- Potential actions of governments, regulatory authorities and other stakeholders that may result in costs or restrictions in the jurisdictions where the Company has operations;
- Increasing carbon tax and changing royalty regimes;
- The ability to secure adequate transportation for products which could be affected by pipeline and storage constraints, the construction by third parties of new or expansion of existing pipeline capacity and other factors;
- Potential limitations on the volumes of water required for completion activities due to drought, conditions of low river flow, government restrictions or other factors;

- The access to markets for the Company's products; and
- The risk of significant interruption or failure of the Company's information technology systems and related data and control systems or a significant breach that could adversely affect the Company's operations.

Indigenous Claims

On January 18, 2023, the Government of British Columbia and the Blueberry River First Nation (the "BRFN") signed the Blueberry River First Nations Implementation Agreement (the "BRFN Agreement"). The BRFN Agreement aims to address the cumulative effects of development on BRFN's claim area through restoration work, establishment of areas protected from industrial development, and a constraint on development activities. Such measures will remain in place while a long-term cumulative effects management regime is implemented. Specifically, the BRFN Agreement includes, among other measures, the establishment of a $200-million restoration fund by June 2025, an ecosystem-based management approach for future land- use planning in culturally important areas, limits on new petroleum and natural gas development, and a new planning regime for future oil and gas activities. The BRFN will receive $87.5 million over three years, with an opportunity for increased benefits based on petroleum and natural gas revenue sharing and provincial royalty revenue sharing in the next two fiscal years.

In late January 2023, the Government of British Columbia and four Treaty 8 First Nations, Fort Nelson, Salteau, Halfway River and Doig River First Nations reached consensus on a collaborative approach to land and resource planning (the "Consensus Agreement"). The Consensus Agreement implements various initiatives including a "cumulative effects" management system linked to natural resource landscape planning and restoration initiatives, new land-use plans and protection measures, and a new revenue-sharing approach to support the priorities of Treaty 8 First Nations communities.

In July 2022, Duncan's First Nation filed a lawsuit against the Government of Alberta claiming in its lawsuit that Alberta has failed to uphold its treaty obligations by authorizing development without considering the cumulative impacts on the First Nation's treaty rights.

The Company does not currently expect that there will be a significant impact to Kelt's 2024 guidance as a result of the BRFN Agreement, the Consensus Agreement, or the Duncan's First Nation lawsuit. However the long-term impacts on the Canadian oil and gas industry remain uncertain therefore the Company awaits additional information on these agreements to assess what the future impact will be on the overall development of oil and gas resources in British Columbia and Alberta.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to federal, provincial and municipal laws and regulations. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Kelt to incur costs to remedy such discharge. Kelt employs an environmental management system to manage these risks through a set of processes and practices to collect, monitor and report on the environmental impact of its operations.

No assurance can be given that the application of environmental laws to the business and operations of Kelt will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Kelt's financial condition, results of operations or prospects.

Climate Change Risks

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. The federal and provincial governments have implemented legislation aimed at incentivizing the use of alternatives fuels and reducing carbon emissions. This legislation along with taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Corporation's operating expenses, each of which may have a material adverse effect on the Corporation's profitability and financial condition. Further, the imposition of carbon taxes puts the Corporation at a disadvantage with the Corporation's counterparts who operate in jurisdictions where there are less costly carbon regulations. Currently enacted carbon pricing costs are included in the Company's report on its oil and gas reserves.

Adverse impacts to the Corporation's business as a result of comprehensive carbon emission legislation or regulation applied to the Corporation's business in Alberta or any jurisdiction in which the Corporation operates, may include, but are not limited to: (i) increased compliance costs; (ii) permitting delays; (iii) substantial costs to reduce emissions or generate or purchase emission credits or allowances; and (iv) reduced demand for crude oil and certain refined products. Emission allowances or offset credits may not be available for acquisition or may not be available on an economic basis. Required emission reductions may not be technically or economically feasible to implement, in whole or in part, and failure to meet such emission reduction requirements or other compliance mechanisms may have a material adverse effect on the Corporation's business resulting in, among other things, fines, permitting delays, penalties and the suspensions of operations.

In addition to climate policy risk, the industry faces physical risks attributable to a changing climate. Climate change is expected to increase the frequency of severe weather conditions, including high winds, heavy rainfall, extreme temperatures, flooding and wildfires, which may result in damage to the Corporation's assets, disruptions in operations or transportation interruptions which may lead to increased capital expenditures or reduced revenues. Further information is available on the Company's ESG report which can be found on the Company's website.

Cybersecurity

The Company has implemented cyber security protocols and procedures to reduce the risk of failure or a significant breach of the Company's information technology systems and related data and control systems. To manage this risk, the Company maintains a system of internal controls and purchases insurance coverage against general risks associated with cybersecurity. During the year ended December 31, 2023, the Company has not experienced a cybersecurity breach that had a material impact on the business.

Risk Mitigation

The Company uses a variety of means to help mitigate or minimize these risks. The Company maintains a comprehensive insurance program to reduce risk. Operational control is enhanced by focusing on large core areas with high working interests and operatorship of drilling and completion operations. Product mix is diversified between natural gas, NGLs and oil which reduces price risk in certain market conditions. Accounts receivable from the sale of crude oil and natural gas are mainly with customers in the crude oil and natural gas industry and are subject to normal industry credit risks. The Company manages these risks by monitoring exposure to individual customers, contractors, suppliers and joint venture partners on a regular basis and when appropriate, ensuring parental guarantees or letters of credit are in place, and as applicable, taking other mitigating actions to minimize the impact in the event of a default. The Company is exposed to possible losses in the event of non-performance by counterparties to derivative financial instruments; however, the Company manages this credit risk by primarily entering into agreements with counterparties that are investment grade financial institutions, and reviews its counterparties on an on-going basis.

A more detailed description of the Company's risks is included in the Annual Information Form as at December 31, 2023, dated March 7, 2024 which can be found at www.sedarplus.ca.

NON-GAAP AND OTHER FINANCIAL MEASURES

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

NON-GAAP FINANCIAL MEASURES

P&NG sales after cost of purchases

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

See the “Petroleum and Natural Gas Sales” section of this MD&A which provides a reconciliation of “P&NG sales after cost of purchases to P&NG sales.

Net realized price

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

Combined net realized prices referenced throughout this MD&A are before derivative financial instruments (“combined net realized price, before financial instruments”), except as otherwise indicated as being after derivative financial instruments (“combined net realized price, after financial instruments”).

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

Operating income and operating netback

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

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

Capital expenditures

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

(CA$ thousands, except as otherwise indicated)	Three months ended December 31 2023	2022	Year ended December 31 2023	2022
Cash used in investing activities	**82,324**	95,916	**265,485**	328,945
Change in non-cash investing working capital	**(19,629)**	(27,322)	**17,161**	(11,405)
Capital expenditures, net of A&D	**62,695**	68,594	**282,646**	317,540
Property acquisitions (1)	**(10)**	(12)	**(102)**	(933)
Property dispositions (1)	**50**	-	**50**	41
Capital expenditures, before A&D	**62,735**	68,582	**282,594**	316,648

(1) Property acquisitions and property dispositions for the year ended December 31, 2023 includes $6.9 million of non-cash consideration. Property acquisitions and property dispositions for the year ended December 31, 2022 includes $2.5 million of non-cash consideration.

Adjusted earnings before interest and taxes

Kelt calculates adjusted earnings before interest and taxes ("EBIT") as net income and comprehensive income plus financing, less accretion of decommissioning obligations, plus deferred income tax expense. Kelt uses adjusted EBIT as a measure of long-term operating performance and as a component in the calculation for return on average capital employed ("ROACE"). The following table contains a reconciliation of adjusted EBIT to the most directly comparable GAAP measure, net income and comprehensive income.

(CA$ thousands, except as otherwise indicated)	December 31, 2023	December 31, 2022	December 31, 2021
Net income and comprehensive income	**85,974**	158,758	114,256
Financing expenses	**4,190**	3,911	2,443
Accretion of decommissioning obligations	**(2,880)**	(2,451)	(2,003)
Deferred income tax expense	**28,503**	51,441	21,436
Adjusted EBIT	**115,787**	211,659	136,132

Average capital employed

Kelt calculates average capital employed as the total of net debt plus the short and long term lease obligations and shareholders equity. Kelt uses average capital employed as a measure of long-term capital management and operating performance, and as a component in the calculation for ROACE. The table below provides a reconciliation of average capital employed to the most directly comparable GAAP measures of shareholders equity.

(CA$ thousands, except as otherwise indicated)	December 31, 2023	December 31, 2022	December 31, 2021
Net debt – beginning of period	**9,789**	28,220	(27,655)
Current portion of lease obligations	**505**	609	684
Long-term portion of lease obligations	**543**	399	780
Shareholders' equity - beginning of period	**901,424**	722,724	603,684
Opening capital employed (A)	**912,261**	751,952	577,493
Net debt – end of period	**12,997**	9,789	28,220
Current portion of lease obligations	**1,125**	505	609
Long-term portion of lease obligations	**332**	543	399
Shareholders' equity - end of period	**1,003,663**	901,424	722,724
Closing capital employed (B)	**1,018,117**	912,261	751,952
Average capital employed (A+B)/2	**965,189**	832,107	664,723

Return on average capital employed

Kelt calculates ROACE, expressed as a percentage, as adjusted EBIT divided by the average capital employed. The components adjusted EBIT and average capital employed are non-GAAP financial measures. Kelt uses ROACE as a measure of long-term financial performance.

(CA$ thousands, except as otherwise indicated)	**Three-year Average**	**December 31, 2023**	December 31, 2022	December 31, 2021
Adjusted EBIT		**115,787**	211,659	136,132
Average capital employed		**965,189**	832,107	664,723
ROACE (%)	**19%**	**12%**	25%	20%

CAPITAL MANAGEMENT MEASURES

Funds from operations and adjusted funds from operations

Management considers funds from operations and adjusted funds from operations as a key capital management measure as it demonstrates the Company's ability to meet its financial obligations and cash flow available to fund its capital program. Funds from operations and adjusted funds from operations are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities. The most comparable GAAP measure is "Cash provided by operating activities". Funds from operations and adjusted funds from operations are calculated as follows:

	Three months ended December 31		Year ended December 31	
(CA$ thousands, except as otherwise indicated)	**2023**	2022	**2023**	2022
Cash provided by operating activities	**62,477**	63,742	**283,224**	306,022
Change in non-cash working capital	**1,697**	28,742	**(11,562)**	17,770
Funds from operations	**64,174**	92,484	**271,662**	323,792
Settlement of decommissioning obligations	**2,444**	367	**4,538**	3,200
Adjusted funds from operations	**66,618**	92,851	**276,200**	326,992

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

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

"Net debt (surplus)" is equal to bank debt, accounts payable and accrued liabilities, net of cash and cash equivalents, accounts receivables and accrued sales and prepaid expenses and deposits. The Company believes that using a "Net debt (surplus)" non-GAAP measure, which excludes non-cash derivative financial instruments, non-cash lease liabilities, and non-cash decommissioning obligations, provides investors with more useful information to understand the Company's cash liquidity risk.

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

SUPPLEMENTARY FINANCIAL MEASURES

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

P&NG sales, cost of purchases, gain (loss) on derivative financial instruments, royalties, production expenses, transportation expenses, financing expenses, gross and net G&A expenses, realized gain (loss) on foreign exchange, other income (expense), share based compensation expense and depletion and depreciation on a $/BOE basis is calculated by dividing the amounts by the Company's total production over the period.

Adjusted funds from operations per share (basic and diluted), and net income and comprehensive income per share (basic and diluted) is calculated by dividing the amounts by the basic weighted average common shares outstanding.

Net asset value

"Net asset value" is calculated by adding the present value of proved plus probable petroleum and natural gas reserves discounted at 10% before-tax (as estimated by Sproule effective December 31, 2023), undeveloped land value, proceeds from exercise of stock options, and net bank debt (surplus). "Net asset value per common share" is calculated by dividing the "Net asset value" by the diluted number of common shares outstanding. The calculation of proceeds from exercise of stock options and the diluted number of common shares outstanding only include stock options that are "in-the-money" based on the closing price of Kelt common shares as at the calculation date. Management believes that the "Net asset value" provides a useful measure to analyze the comparative change in the Company's estimated value on a normalized basis.

See the "Net asset value" section of this MD&A which provides a reconciliation of the net asset value to Kelt's Present value of 2P P&NG reserves, discounted at 10% before-tax.

SUSTAINABILITY STANDARDS

On June 26, 2023 the International Sustainability Standards Board ("ISSB") issued its first two sustainability standards, IFRS S1 and IFRS S2, which deal with general requirements for sustainability disclosure and climate-related disclosure. There are several hurdles before the ISSB standards move from being voluntary to having the force of law in Canada. The Canadian Securities Administrators ("CSA") have indicated that they intend to engage and collaborate with the Canadian Sustainability Standard Board ("CSSB") on a review of the ISSB standards and proposed National Instrument 51-107. Although it is likely the CSSB will start with the ISSB standards, the extent that the final CSSB standards will differ from those issued by the ISSB is unknown.

Kelt publishes an annual Environmental, Social, and Governance ("ESG") Report, which includes the Company's ESG practices and performance. The latest report, dated May 3, 2023 can be found on the Company's website at www.keltexploration.com. Kelt's ESG report is aligned with the standards set out in the Sustainability Accounting Standards Board, Oil and Gas – Exploration and Production Sustainability Accounting Standard.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

The information set out herein is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for the calendar year 2024. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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

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

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves, and the future net revenue attributed to such reserves, including many factors beyond the control of Kelt. The reserves and associated future net revenue information set forth in this MD&A are estimates only. In general, estimates of economically recoverable oil, natural gas and NGLs reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserves recovery, the timing and amount of capital expenditures, marketability of oil, natural gas and NGLs, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For these reasons, estimates of the economically recoverable oil, natural gas and NGLs reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and estimates of future net revenue associated with reserves prepared by different engineers, or by the same engineer at different times, may vary.

Kelt's actual production, revenue, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. It should not be assumed that the undiscounted or discounted net present value of future net revenue attributable to the Corporation's reserves estimated by the Corporation's independent qualified reserves evaluators represent the fair market value of those reserves. There is no assurance that the forecast prices and costs assumptions will be attained, and variances could be material. Actual oil, natural gas and NGLs reserves may be greater than or less than the estimates provided herein, and variances could be material.

With respect to the disclosure of reserves contained herein relating to portions of Kelt's properties, the estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation. Unless otherwise stated all references to "reserves" are to Kelt's gross company reserves before deduction of royalties and without including and royalty interests of Kelt. It should not be assumed that the undiscounted or discounted net present value of the Company's reserves, as determined by Sproule, represents the fair value of those reserve estimates.

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

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

ADDITIONAL INFORMATION

Additional information relating to Kelt, including the Company's Annual Information Form ("AIF") dated March 7, 2024 is filed on SEDAR+ and can be viewed on their website at www.sedarplus.ca. Copies of the AIF can also be obtained by contacting Sadiq H. Lalani, Vice President and Chief Financial Officer at Kelt Exploration Ltd., Suite 300, 311 Sixth Avenue SW, Calgary, Alberta, Canada, T2P 3H2. Further information relating to Kelt is also available on its website at www.keltexploration.com.

ABBREVIATIONS

A&D	Acquisitions and dispositions
AECO	Alberta Energy Company “C” Meter Station of the NOVA Pipeline System
AT	After income taxes
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
BOE	barrels of oil equivalent
BOE/d	barrels of oil equivalent per day
BT	Before income taxes
CA$/CAD	Canadian Dollar
Dawn	Gas traded at Union Gas' Dawn Hub in Dawn Township, Ontario
E&E	Exploration and Evaluation
FDC	Future Development Capital
G&A	General and Administration
GJ	gigajoules
Mbbls	thousand barrels
MBOE	thousand barrels of oil equivalent
Mcf	thousand cubic feet
MD&A	Management’s Discussion and Analysis
MMBtu	million British Thermal Units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MSW	Mountain sweet blend crude oil
NGLs	Natural Gas Liquids
NGX	Natural Gas Exchange Inc. (Canada)
NGTL	Nova Gas Transmission Line
NIT	NOVA Inventory Transfer (“AB-NIT”), being the reference price at the AECO Hub
NYMEX	New York Mercantile Exchange
OPEC+	The Organization of Petroleum Exporting Countries along with 10 additional oil-producing countries
P&NG	Petroleum and Natural Gas
Q1	First quarter ended March 31st
Q2	Second quarter ended June 30th
Q3	Third quarter ended September 30th
Q4	Fourth quarter ended December 31st
SBC	Share Based Compensation
SEDAR+	System for Electronic Document Analysis and Retrieval
Station 2	Spectra Energy receipt location
TSX	Toronto Stock Exchange
US$/USD	United States dollar
WTI	West Texas Intermediate
YTD	Year to date
1P	Proved reserves
2P	Proved plus probable reserves

CONVERSION OF UNITS

Imperial = Metric

1 acre = 0.4 hectares

2.5 acres = 1 hectare

1 bbl = 0.159 cubic metres

6.29 bbls = 1 cubic metre

1 foot = 0.3048 metres

3.281 feet = 1 metre

1 Mcf = 28.2 cubic metres

0.035 Mcf = 1 cubic metre

1 mile = 1.61 kilometres

0.62 miles = 1 kilometre

1 MMBtu = 1.054 GJ

0.949 MMBtu = 1 GJ

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

William C. Guinan [8, 9]
Board Chair, Independent

Jennifer Haskey [2, 6, 7]
Director, Independent

Michael R. Shea [5, 7, 8]
Director, Independent

Neil G. Sinclair [1, 9, 10]
Director, Independent

Janet E. Vellutini [3, 6, 7]
Director, Independent

David J. Wilson [4, 10]
President & Chief Executive Officer,
Kelt Exploration Ltd.

1 chair, audit committee
2 chair, reserves committee
3 chair, compensation and corporate governance committee
4 chair, health, safety, environment and sustainability committee
5 chair, nominating committee
6 member, audit committee
7 member, reserves committee
8 member, compensation and corporate governance committee
9 member, health, safety and environment and sustainability committee
10 member, nominating committee

HEAD OFFICE

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

Phone: 403.294.0154
Fax: 403.291.0155
www.keltexploration.com

REGISTRAR AND TRANSFER AGENT

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

LEGAL COUNSEL

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

OFFICERS

David J. Wilson
President & Chief Executive Officer

Sadiq H. Lalani
Vice President & Chief Financial Officer

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

Alan G. Franks
Vice President, Production

Bruce D. Gigg
Vice President, Engineering

David A. Gillis
Vice President, Finance

Douglas O. MacArthur
Vice President, Operations

Patrick W.G. Miles
Vice President, Exploration

Louise K. Lee
Corporate Secretary

AUDITORS

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

EVALUATION ENGINEERS

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

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common shares “KEL”

kelt exploration

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