kelt exploration

INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2025

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

(CA$ thousands)	[Notes]	**March 31, 2025**	December 31, 2024
ASSETS			
Current assets			
Cash and cash equivalents		**89**	228
Accounts receivable and accrued sales	[9]	**64,159**	60,236
Prepaid expenses and deposits		**3,212**	4,109
Derivative financial instruments	[9]	**1,748**	6,709
Total current assets		**69,208**	71,282
Exploration and evaluation assets	[4]	**28,588**	18,092
Property, plant and equipment	[5]	**1,414,956**	1,361,305
Total assets		**1,512,752**	1,450,679
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[9]	**114,718**	80,463
Derivative financial instruments	[9]	**9,303**	7,936
Decommissioning obligations	[7]	**3,932**	3,552
Lease liability		**1,650**	1,655
Total current liabilities		**129,603**	93,606
Bank debt	[6]	**102,766**	108,993
Decommissioning obligations	[7]	**100,190**	97,423
Lease liability		**505**	419
Deferred income tax liability		**93,424**	87,234
Total liabilities		**426,488**	387,675
SHAREHOLDERS' EQUITY			
Shareholders' capital	[8]	**1,190,291**	1,184,065
Contributed surplus and reserve		**(8,637)**	(6,692)
Deficit		**(95,390)**	(114,369)
Total shareholders' equity		**1,086,264**	1,063,004
Total liabilities and shareholders' equity		**1,512,752**	1,450,679

Commitments [12]

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

On behalf of the Board of Directors:

[signed] *[signed]*

David J. Wilson, Director Ray Kwan, Director

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

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Notes]	**2025**	2024
Revenue			
Petroleum and natural gas sales	[10]	**142,501**	126,391
Royalties		**(15,239)**	(15,042)
		127,262	111,349
Expenses			
Production		**34,352**	31,220
Transportation		**12,632**	10,363
Cost of purchases		**2,904**	4,835
Financing	[11]	**2,817**	1,109
General and administrative		**3,602**	3,474
Share based compensation	[8]	**2,148**	1,957
Exploration and evaluation	[4]	**-**	140
Depletion and depreciation	[5]	**43,769**	33,867
		102,224	86,965
Gain (loss) on derivative financial instruments	[9]	**46**	(6,950)
Foreign exchange gain		**73**	35
Other income		**14**	75
Net income before taxes		**25,171**	17,544
Deferred income tax expense		**(6,192)**	(5,697)
Net income and comprehensive net income		**18,979**	11,847
Net income per common share			
Basic		**0.10**	0.06
Diluted		**0.09**	0.06

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

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

		Shareholders' capital				
(CA$ thousands)	[Notes]	Number of Shares (000s)	Amount ($ thousands)	Contributed surplus and reserve	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2024		196,756	1,184,065	(6,692)	(114,369)	1,063,004
Net income and comprehensive net income		-	-	-	18,979	18,979
Exercise of stock options	[8]	1,210	3,196	(1,063)	-	2,133
Vesting of restricted share units	[8]	650	3,030	(3,030)	-	-
Share based compensation	[8]	-	-	2,148	-	2,148
Balance at March 31, 2025		**198,616**	**1,190,291**	**(8,637)**	**(95,390)**	**1,086,264**

Balance at December 31, 2023		194,506	1,175,465	(12,010)	(159,792)	1,003,663
Net income and comprehensive net income		-	-	-	11,847	11,847
Exercise of stock options	[8]	343	1,653	(516)	-	1,137
Vesting of restricted share units	[8]	369	1,208	(1,208)	-	-
Share based compensation	[8]	-	-	1,957	-	1,957
Balance at March 31, 2024		195,218	1,178,326	(11,777)	(147,945)	1,018,604

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

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

		Three months ended March 31	
(CA$ thousands)	[Notes]	**2025**	2024
Operating activities			
Net income and comprehensive net income		**18,979**	11,847
Items not affecting cash:			
Accretion	[11]	**800**	719
Share based compensation		**2,148**	1,957
Exploration and evaluation		**-**	140
Depletion and depreciation		**43,769**	33,867
Unrealized loss on derivative financial instruments	[9]	**6,326**	6,949
Deferred income tax expense		**6,192**	5,697
Settlement of decommissioning obligations	[7]	**(526)**	(949)
Change in non-cash operating working capital	[13]	**9,241**	2,266
Cash provided by operating activities		**86,929**	62,493
Financing activities			
Decrease in bank debt		**(6,227)**	-
Proceeds on exercise of stock options	[8]	**2,133**	1,137
Repayment of lease liability principal		**(216)**	(147)
Cash provided by (used in) financing activities		**(4,310)**	990
Investing activities			
Exploration and evaluation assets	[4]	**(10,997)**	(337)
Property, plant and equipment	[5]	**(93,749)**	(79,175)
Property acquisitions		**-**	(669)
Change in non-cash investing working capital	[13]	**21,988**	3,792
Cash used in investing activities		**(82,758)**	(76,389)
Net change in cash and cash equivalents		**(139)**	(12,906)
Cash and cash equivalents, beginning of period		**228**	14,340
Cash and cash equivalents, end of period		**89**	1,434

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

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

1. DESCRIPTION OF THE BUSINESS

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

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

2. BASIS OF PRESENTATION

The Company's Board of Directors approved and authorized these condensed consolidated interim financial statements on May 7, 2025.

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS Accounting Standards"), applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. Certain disclosures included in the notes to the financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements as at and for the year ended December 31, 2024.

b) Basis of measurement

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

The financial statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value. The methods used to measure fair values are described in note 9 of these financial statements.

c) Significant Judgements and Estimates

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2024 audited annual consolidated financial statements.

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

3. MATERIAL ACCOUNTING POLICIES

The material accounting policies applied by the Company are described in note 3 of the December 31, 2024 audited annual consolidated financial statements. These condensed consolidated interim financial statements as at March 31, 2025 have been prepared following the same accounting policies and methods of computation as the most recent audited annual consolidated financial statements as at and for the year ended December 31, 2024.

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements' which will replace IAS 1 'Presentation of Financial Statements'. The standard introduces a new defined structure to the Consolidated Statements of Net Income and Comprehensive Net Income with new categories for income and expenses and new totals and subtotals. In addition, there are additional disclosures around management defined performance measures and additional requirements regarding the aggregation and disaggregation of certain information. IFRS 18 is effective January 1, 2027, and are required to be adopted retrospectively with early adoption permitted. The Company is assessing the impact of IFRS 18 on the Company's consolidated financial statements.

In May 2024, the IASB issued amendments IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures' to clarify the date of recognition and derecognition of financial assets and liabilities including the settling of financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets. These amendments are effective January 1, 2026, and are required to be adopted retrospectively with early adoption permitted. The Company is assessing the impact of the amendments on the Company's consolidated financial statements.

4. EXPLORATION AND EVALUATION ASSETS

The following table reconciles movements of exploration and evaluation (“E&E”) assets:

	March 31, 2025	December 31, 2024
Balance, beginning of period	**18,092**	17,162
Additions	**10,997**	2,961
Transfers to property, plant and equipment	**(501)**	(1,817)
Exploration and evaluation expense	**-**	(214)
Balance, end of period	**28,588**	18,092

5. PROPERTY, PLANT AND EQUIPMENT

Net carrying value	**March 31, 2025**	December 31, 2024
Development and production (“D&P”) assets	**1,412,046**	1,358,231
Right-of-use (“ROU”) assets	**2,288**	2,227
Corporate assets	**622**	847
Total net carrying value of property, plant and equipment	**1,414,956**	1,361,305

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

Property, plant and equipment, at cost	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2023	2,057,993	7,908	4,617	2,070,518
Additions	324,190	1,140	1,967	327,297
Transfers from ROU assets	683	-	(683)	-
Property acquisitions	5,115	-	-	5,115
Property dispositions	(705)	-	-	(705)
Change in decommissioning obligations	2,777	-	-	2,777
Transfers from E&E	1,817	-	-	1,817
Balance at December 31, 2024	**2,391,870**	**9,048**	**5,901**	**2,406,819**
Additions	**93,717**	**32**	**297**	**94,046**
Change in decommissioning obligations	**2,873**	**-**	**-**	**2,873**
Transfers from E&E	**501**	**-**	**-**	**501**
Balance at March 31, 2025	**2,488,961**	**9,080**	**6,198**	**2,504,239**

Accumulated depletion, depreciation and impairment	D&P Assets	Corporate Assets	ROU Assets	Total PP&E
Balance at December 31, 2023	893,745	7,333	3,028	904,106
Depletion and depreciation expense	139,894	868	732	141,494
Dispositions	-	-	(86)	(86)
Balance at December 31, 2024	**1,033,639**	**8,201**	**3,674**	**1,045,514**
Depletion and depreciation expense	**43,276**	**257**	**236**	**43,769**
Balance at March 31, 2025	**1,076,915**	**8,458**	**3,910**	**1,089,283**

Future capital costs required to develop proved reserves in the amount of $1,790.8 million (December 31, 2024 – $1,839.9 million) are included in the depletion calculation for development and production assets.

Based on its assessment as of March 31, 2025, the Company determined that there were no indicators of impairment.

6. BANK DEBT

At March 31, 2025, the Company has a $150.0 million credit facility ("Credit Facility") from a syndicate of financial institutions. At March 31, 2025, $102.8 million was drawn under the Credit Facility, with outstanding letters of credit of $3.7 million.

Subsequent to the first quarter of 2025, the Company and its lenders increased the amount available under the Credit Facility to $250.0 million.

Repayments of principal are not required provided that the borrowings under the Credit 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, with the next redetermination date of November 30, 2025. There are no financial covenants under the Credit Facility and Kelt is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a demand debenture with a floating charge over all assets in the amount of $800.0 million.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on the prime rate plus the applicable margin. The applicable margin ranges from 175 basis points to 375 basis points depending upon the Net Debt to Cash Flow ratio of between less than 0.5 times and three times. Under the Credit Facility, borrowings through the use of benchmark loans are also available. Stamping fees fluctuate based on a pricing grid and range from 2.75% to 4.75%, depending upon the Net Debt to Cash Flow ratio of between less than 0.5 times and three times.

The Credit Facility may be extended annually at Kelt's option and subject to lender approval, with a 364 day term-out period if not renewed.

7. DECOMMISSIONING OBLIGATIONS

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

	March 31, 2025	December 31, 2024
Balance, beginning of period	**100,975**	99,915
Obligations incurred	**755**	3,247
Obligations acquired	**-**	299
Obligations disposed	**-**	(62)
Obligations settled	**(526)**	(5,036)
Changes in discount rate	**2,511**	(6,954)
Revisions to estimates	**(393)**	6,484
Accretion expense	**800**	3,082
Balance, end of period	**104,122**	100,975
Decommissioning obligations – current	**3,932**	3,552
Decommissioning obligations – non-current	**100,190**	97,423
Key assumptions		
Risk free rate	**3.2%**	3.3%
Inflation rate	**2.0%**	2.0%

The underlying cost estimates are derived from a combination of published industry benchmarks and site-specific information. As at March 31, 2025 the undiscounted amount of the estimated cash flows required to settle the obligation is $145.3 million (December 31, 2024 – $144.3 million) and is expected to be incurred over the next 50 years. The undiscounted amount of the estimated future cash flows required to settle the obligation is $276.5 million at March 31, 2025 (December 31, 2024 – $274.4 million). The inflated future cost estimates are discounted based on a risk-free rate to determine the carrying amounts presented in the table above.

Accretion of the decommissioning obligation due to the passage of time is presented within financing expenses in the Consolidated Statement of Net Income and Comprehensive Net Income (note 11).

8. SHARE CAPITAL

Authorized

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

Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares issued or outstanding as of March 31, 2025 (December 31, 2024 – nil).

	Number of Shares (000s)	Amount ($ thousands)
Balance at December 31, 2023	**194,506**	**1,175,465**
Issued on exercise of stock options	**1,836**	**5,072**
Transfer from contributed surplus on exercise of stock options	**-**	**2,103**
Released upon vesting of restricted share units	**414**	**1,425**
Balance at December 31, 2024	**196,756**	**1,184,065**
Issued on exercise of stock options	**1,210**	**2,133**
Transfer from contributed surplus on exercise of stock options	**-**	**1,063**
Released upon vesting of restricted share units	**650**	**3,030**
Balance at March 31, 2025	**198,616**	**1,190,291**

Stock options

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

The following table summarizes the change in stock options outstanding:

	Number of Options (000s)	Average Exercise Price ($/share)
Balance at December 31, 2023	9,697	3.74
Granted	2,315	6.09
Exercised (1)	(1,836)	2.76
Forfeited	(205)	6.19
Balance at December 31, 2024	**9,971**	**4.41**
Granted	**10**	**6.46**
Exercised (1)	**(1,210)**	**1.76**
Forfeited	**(39)**	**5.66**
Balance at March 31, 2025	**8,732**	**4.78**

(1) The weighted average share price on the date stock options were exercised during the quarter ended March 31, 2025 was $7.09 per common share ($6.19 per common share on average during the year ended December 31, 2024).

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

	Three months ended March 31	
	2025	2024
Risk free interest rate	**2.54%**	3.98%
Expected life (years)	**3.0**	3.0
Expected volatility (1)	**38.7%**	50.4%
Expected dividend yield	**-**	0.0%
Expected forfeiture rate	**5.0%**	5.1%
Fair value of options granted during the year ($/share)	**1.87**	2.20

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

The following table summarizes information regarding stock options outstanding at March 31, 2025:

Range of exercise prices per common share	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$0.00 to $2.00	314	-	1.02	314	1.02
$2.01 to $4.00	1,733	1.0	2.74	1,733	2.74
$4.01 to $6.00	4,236	2.3	5.08	3,652	5.14
$6.01 to $8.00	2,449	4.0	6.19	111	6.75
Total	**8,732**	**2.4**	**4.78**	**5,810**	**4.23**

Restricted share units

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

The following table summarizes the change in RSUs outstanding:

	Number of RSUs (000s)
Balance at December 31, 2023	1,742
Granted	558
Released upon vesting	(414)
Forfeited	(58)
Balance at December 31, 2024	**1,828**
Granted	**4**
Released upon vesting	**(650)**
Forfeited	**(15)**
Balance at March 31, 2025	**1,167**

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

	Three months ended March 31	
	2025	2024
Stock options	**1,265**	1,226
Restricted share units	**883**	731
Total share based compensation expense	**2,148**	1,957

Per share amounts

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

	Three months ended March 31	
(000s of common shares)	**2025**	2024
Weighted average common shares outstanding, basic	**197,531**	194,655
Effect of stock options and RSUs	**2,994**	3,630
Weighted average common shares outstanding, diluted	**200,525**	198,285

The treasury stock method is used 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.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Commodity price risk

Inherent to the business of producing oil and gas, 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 31, 2025, the following commodity price derivative financial instrument contracts are outstanding:

Crude oil derivative financial instrument swap contracts

Contract Type (1)	Notional Volume	Contract Price	Remaining Term
WTI fixed price swap	1,000 bbl/d	CAD$106.46/bbl	Apr 25 – Jun 25
WTI fixed price swap	2,000 bbl/d	USD$69.6575/bbl	Apr 25 – Dec 25
WTI option (2)	500 bbl/d	Settles monthly if WTI price > USD$70.50/bbl	Jan 25 – Dec 25

(1) West Texas Intermediate ("WTI")
(2) The WTI option is settled monthly at USD$70.50/bbl if the average WTI price is above USD$70.50/bbl.

NGL derivative financial instrument swap contracts

Contract Type	Notional Volume	Contract Price	Remaining Term
OPIS-Conway propane fixed price swap	250 bbl/d	USD$33.60/bbl	Apr 25 – Mar 26
OPIS-Conway propane basis swap	250 bbl/d	Monthly OPIS-Conway basis calculated at 46% of the floating monthly WTI price	Apr 25 – Mar 26

Natural gas derivative financial instrument contracts

Contract Type (1)	Notional Volume	Contract Price $/MMBtu	Remaining Term
NYMEX swap	20,000 MMBtu/d	CAD$6.405/MMBtu	Apr 25 – Dec 25
AECO 7A swap	5,000 GJ/d	CAD$1.85/GJ	Apr 25
AECO 7A swap	10,000 GJ/d	CAD$1.9275/GJ	May 25 – Jul 25
NYMEX costless collar	10,000 MMBtu/d	Floor: CAD$5.00/MMBtu Ceiling: CAD$10.00/MMBtu	Apr 25 – Dec 25
NYMEX-Dawn basis swap	5,000 MMBtu/d	NYMEX less CAD$0.635/MMBtu	Apr 25 – Jun 25

(1) NYMEX Henry Hub ("NYMEX")

Natural gas embedded derivative

Contract Type	Notional Volume	Contract Price (1)	Remaining Term
Physical delivery contract	2,513 GJ/d	Floating AESO power pool price (CAD/MWh) divided by the Fixed Heat Rate of 17.95 GJ/MWh	Apr 25 – Dec 26
Physical delivery contract	7,349 GJ/d	Floating AESO power pool price (CAD/MWh) divided by the Fixed Heat Rate of 16.75 GJ/MWh	Jan 26 – Dec 26

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

The Company has an outstanding natural gas physical supply agreement, with a term from January 1, 2025 to December 31, 2026, to deliver gas to the Nova Inventory Transfer point, which contains an embedded derivative. Under the terms of the agreement, the Company receives a price equal to the Floating AESO Power Pool Price divided by the fixed heat rate.

The fair value of the embedded derivative is calculated by the difference between the forecasted Floating AESO Power Pool Price divided by the fixed heat rate, less the forecasted AECO 5A price, for the remaining term of the contract.

Interest rate risk

The Company is exposed to interest rate risk as changes in market interest rates will impact the Credit Facility which is subject to a floating interest rate. Based on bank debt balance as of March 31, 2025 of $102.8 million, an increase (decrease) in the market rate of interest by 25 basis points would have an increased (decreased) annualized interest expense of $0.3 million. As of March 31, 2025, there are no interest rate risk management contracts outstanding.

Foreign exchange risk

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

As at March 31, 2025, the following foreign exchange risk management contracts are outstanding:

Foreign exchange derivative financial instrument swap contracts

Contract Type	Notional Volume	Contract/Exercise Price	Remaining Term
CAD/USD swap	USD$7.0 million/month	$1.3796 CAD/USD	Apr 25 – Jun 25
CAD/USD swap	USD$6.0 million/month	$1.3795 CAD/USD	Jul 25 – Dec 25

Foreign exchange derivative financial instrument option contracts

Contract Type	Notional Volume	Contract/Exercise Price	Exercise/ expiration date	Term if exercised
Sold call option	USD$2.0 million/month	$1.3820 CAD/USD	Dec 31, 2025	Jan 26 – Dec 26
Sold call option	USD$2.0 million/month	$1.3800 CAD/USD	Dec 31, 2025	Jan 26 – Dec 26

Gains and losses on derivative financial instrument contracts

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

	Three months ended March 31	
	2025	2024
Realized gain (loss)		
Derivative financial instrument contracts	**6,334**	(1)
Natural gas embedded derivative	**38**	-
Total realized gain (loss)	**6,372**	(1)
Unrealized gain (loss)		
Derivative financial instrument contracts	**(3,968)**	(6,949)
Natural gas embedded derivative	**(2,358)**	-
Total unrealized loss	**(6,326)**	(6,949)
Gain (loss) on derivative financial instruments	**46**	(6,950)

Fair value measurements

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

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

The fair value of cash and cash equivalents, accounts receivable and accrued sales, deposits, accounts payable and accrued liabilities approximate their carrying value due to the short term to maturity of these instruments. Bank debt bears interest at a floating market rate and accordingly the fair market value of bank debt approximates the carrying amount. Derivative financial instruments are classified as Level 2.

Credit Risk

As at March 31, 2025, the carrying amount of cash and cash equivalents, accounts receivable and accrued sales, deposits, and derivative financial instruments represent the Company’s maximum credit exposure. Potential losses are mitigated from this credit exposure by holding cash and cash equivalents with a Canadian chartered bank, and restricting derivative financial instrument transactions to counterparties that are all investment grade. The remaining credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

	March 31, 2025	December 31, 2024
Joint venture partners	**9,216**	5,893
Oil and gas marketers	**47,359**	45,708
GST input tax credits	**2,530**	4,036
Derivative financial instrument contracts	**3,092**	1,314
Other	**2,417**	3,638
Expected credit loss provision	**(455)**	(353)
Accounts receivable and accrued sales	**64,159**	60,236

During the quarter ended March 31, 2025, sales to three oil and gas marketers accounted for approximately 10%, 26% and 23%, of total sales. During the year ended December 31, 2024, sales to two oil and gas marketers accounted for approximately 29% and 31% of total sales. Credit risk from oil and gas marketers is mitigated through transacting with investment grade rating counterparties in the majority of its oil and gas marketing transactions.

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

The balance of accounts receivable outstanding for more than 90 days relates primarily to receivables from joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. The Company has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners. As of March 31, 2025, the collection risk on outstanding accounts receivable balances is considered low as 1.0% of the accounts receivable balance are outstanding for more than 90 days (December 31, 2024 – 1.0%).

Liquidity risk

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

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

The table below outlines a contractual maturity analysis for Kelt’s financial liabilities as at March 31, 2025:

	Within 1 Year	1 to 5 Years	More than 5 Years	**Total**
Accounts payable and accrued liabilities	114,718	-	-	**114,718**
Derivative financial instruments	9,303	-	-	**9,303**
Lease liability	1,650	505	-	**2,155**
Bank debt and estimated interest (1)	6,269	102,766	-	**109,035**
Total	**131,940**	**103,271**	**-**	**235,211**

(1) Estimated interest for future years related to the Credit Facility was calculated using the weighted average interest rate of 6.1% for the quarter ended March 31, 2025, applied to the principal balance outstanding as at that date.

Capital Management

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

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

Adjusted funds from operations

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

Adjusted funds from operations are calculated as follows:

	Three months ended March 31	
	2025	2024
Cash provided by operating activities	**86,929**	62,493
Change in non-cash working capital	**(9,241)**	(2,266)
Settlement of decommissioning obligations	**526**	949
Adjusted funds from operations	**78,214**	61,176

Net debt and net debt to adjusted funds from operations ratio

Management considers net debt and a net debt 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 Company targets a net debt to adjusted funds from operations ratio of less than 2.0 times. Net debt and a net debt to adjusted funds from operations ratio are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

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

	March 31, 2025	December 31, 2024
Bank debt	**102,766**	108,993
Accounts payable and accrued liabilities	**114,718**	80,463
Cash and cash equivalents	**(89)**	(228)
Accounts receivable and accrued sales	**(64,159)**	(60,236)
Prepaid expenses and deposits	**(3,212)**	(4,109)
Net debt	**150,024**	124,883
Adjusted funds from operations (1)	**239,016**	221,978
Net debt to adjusted funds from operations ratio	**0.6**	0.6

(1) 12-month trailing adjusted funds from operations.

As described in note 6, there are no financial covenants under the Credit Facility agreement and Kelt is in compliance with all other covenants.

10. PETROLEUM AND NATURAL GAS SALES

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

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

Kelt sells some of its natural gas outside of Alberta and British Columbia where title transfer occurs prior to the market location where the benchmark commodity price is determined. For the quarter ended March 31, 2025, the transportation costs that occurred after title transfer takes place, and which is included in gas production sales, was $3.8 million (March 31, 2025 – $4.0 million).

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

	Three months ended March 31	
	2025	2024
Oil production	**79,045**	71,562
Oil treating and other	**185**	203
NGLs production	**20,813**	16,603
Gas production	**39,030**	32,328
Gas processing and other	**439**	775
Marketing revenue	**2,989**	4,920
Total petroleum and natural gas sales	**142,501**	126,391

Included in accounts receivable at March 31, 2025 is $47.4 million (December 31, 2024 – $45.7 million) of accrued oil and gas sales related to March 2025 production.

11. FINANCING EXPENSES

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

	Three months ended March 31	
	2025	2024
Total interest expense	**2,017**	390
Accretion of decommissioning obligations [note 7]	**800**	719
Total financing expense	**2,817**	1,109

12. COMMITMENTS

As of March 31, 2025, the Company is committed to future payments under the following agreements:

	2025	2026	2027	2028	2029	Thereafter
Firm processing commitments	39,588	72,132	72,538	74,713	73,606	409,380
Firm transportation commitments	32,380	47,028	42,622	41,239	37,303	141,979
Total annual commitments	**71,968**	**119,160**	**115,160**	**115,952**	**110,909**	**551,359**

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
Changes in non-cash working capital	**2025**	2024
Accounts receivable and accrued sales	**(3,923)**	1,492
Prepaid expenses and deposits	**897**	555
Accounts payable and accrued liabilities	**34,255**	4,011
Change in non-cash working capital	**31,229**	6,058
Relating to:		
Operating activities	**9,241**	2,266
Investing activities	**21,988**	3,792
Change in non-cash working capital	**31,229**	6,058

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

	Three months ended March 31	
Cash outlays in respect of interest and taxes	**2025**	2024
Interest and standby fees on bank debt	**1,879**	256
Taxes [1]	**-**	-

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