**PRESS RELEASE**
(Stock Symbol **"KEL"** – TSX)
January 4, 2017
Calgary, Alberta

# KELT ENTERS INTO AN AGREEMENT TO DISPOSE OIL & GAS PROPERTIES AT KARR FOR GROSS PROCEEDS OF $100 MILLION

Kelt Exploration Ltd. ("Kelt" or the "Company") has entered into a definitive purchase and sale agreement to dispose of oil and gas assets in the Karr area of Alberta. The effective adjustment date of the disposition is January 1, 2017 and closing is expected to occur on or about January 18, 2017. The gross proceeds payable to Kelt, prior to adjustments at closing, will be $100.0 million. The purchaser has provided Kelt with a deposit in the amount of $10.0 million that will be held in escrow until closing.

## DIVESTMENT PROPERTY ATTRIBUTES

- At December 31, 2015, as evaluated by Sproule Associates Limited, proved reserves were 5.1 million BOE ($47.9 million of FDC required to develop proved reserves) and proved plus probable reserves were 12.7 million BOE ($113.3 million of FDC required to develop proved plus probable reserves) of which 34% were oil, 17% were NGLs and 49% were gas;
- Estimated average production for December 2016 based upon field reports was 1,303 BOE per day (34% oil, 16% NGLs and 50% gas);
- Land holdings include 16,480 gross acres (25.7 sections) and 16,400 net acres (25.6 sections) of which 9,920 gross acres (15.5 sections) and 9,840 net acres (15.4 sections) included Montney rights. Approximately 79% of net land holdings were classified as undeveloped by Kelt; and
- Tangible equipment includes a 100% interest in the Kelt Karr 10-21-65-3W6 oil battery and a 2.26% interest in the CNRL Karr 10-10-65-2W6 gas plant.

Kelt commenced development pad drilling on its Montney oil play at Karr in December 2016 and has now rig released the first well located at 102/13-28-065-03W6. The purchaser of the Karr assets has agreed to take over the completion operations of this well upon closing.

Kelt retains certain non-operated interests at Karr with current production of approximately 124 BOE per day and a 1.0% interest in the CNRL Karr 10-10-65-2W6 gas plant. The Company will endeavour to divest of these minor interests in the future.

## OPERATIONS UPDATE

At Inga in British Columbia, Kelt completed its second middle Montney well and commenced production from that well in December 2016. The well, which is located at 100/14-24-087-23W6, has been on production for 22 days. The IP22 rate (gross sales) is 1,461 BOE per day of which 71% is oil and liquids. The initial production results from this well are very encouraging as the Company continues to delineate the middle Montney at Inga.

In the upper Montney, Kelt has just completed the Fireweed well located at C-31-I/94-A-12 in the northeast part of its large contiguous BC land block. The Company plans to drill one more upper Montney well in the southeast part of its BC land block prior to spring break-up in 2017, after which, Kelt further plans to commence full development in the upper Montney at Inga by switching to pad drilling. The Company expects pad drilling will result in significant savings in per well capital expenditures, as well as lower per unit operating expenses upon the wells being brought on production.

At Pouce Coupe in Alberta, Kelt has now completed the drilling of a five well pad of which two wells were drilled in the lower-middle Montney ("D1") and three wells were drilled in the upper-middle Montney ("D2"). Completion operations on these five wells are expected to commence by mid-January 2017.

In the current energy business environment, Kelt has continued to take advantage of lower industry-wide spending levels with its strategy of low-cost land accumulation in its core operating areas and significantly lower drilling and completion costs as the Company transitions to full scale development.

**2017 OUTLOOK AND GUIDANCE**

The Company's Board of Directors has approved an increase in the Company's 2017 capital expenditure budget to $144.6 million. A portion of the increase in capital spending will be used for facilities, whereby Kelt expects to increase both compression and pipeline gathering capacity in its core producing areas to accommodate production additions. After giving effect to the Karr property disposition, net capital spending in 2017 is expected to be approximately $42.0 million, down 69% from the Company's previous capital expenditure budget of $134.0 million.

Kelt expects to drill 20 gross (17.8 net) wells in 2017, however, the Company expects to complete 26 gross (23.8 net) wells in 2017, as there are 6 gross (6.0 net) drilled but un-completed ("DUC") wells from 2016.

The table below outlines Kelt's forecasted financial and operating guidance for 2017, after giving effect to the Karr property disposition, as compared to the Company's previous guidance for 2017:

| *(CA$ millions, except as otherwise indicated)* | **2017 Forecast** | Previous Guidance | Change |
|---|---|---|---|
| Average Production | | | |
| Oil (bbls/d) | **6,700** | 6,550 | 2% |
| NGLs (bbls/d) | **2,500** | 2,800 | - 11% |
| Gas (mmcf/d) | **82,800** | 81,900 | 1% |
| Combined (BOE/d) | **23,000** | 23,000 | 0% |
| Production per million common shares (BOE/d) | **131** | 131 | 0% |
| Forecasted Average Commodity Prices | | | |
| WTI oil price (US$/bbl) | **52.00** | 52.00 | 0% |
| Canadian Light Sweet ($/bbl) | **65.24** | 65.24 | 0% |
| NYMEX natural gas price (US$/MMBTU) | **3.05** | 3.05 | 0% |
| AECO natural gas price ($/GJ) | **2.95** | 2.95 | 0% |
| Average Exchange Rate (US$/CA$) | **0.749** | 0.749 | 0% |
| Capital Expenditures | | | |
| Drilling & completions | **104.6** | 100.0 | 5% |
| Facilities, pipeline & well equipment | **32.0** | 26.0 | 23% |
| Land, seismic & property acquisitions (net of dispositions) | **(94.6)** | 8.0 | - |
| Total Capital Expenditures | **42.0** | 134.0 | - 69% |
| Funds from operations | **128.0** | 124.0 | 3% |
| Per common share, diluted | **0.73** | 0.70 | 4% |
| Bank debt, net of working capital, at year-end (1) | **52.0** | 148.0 | - 65% |
| Net bank debt to trailing annual funds from operations ratio | **0.4 x** | 1.2 x | |
| Weighted average common shares outstanding (millions) | **175.7** | 175.7 | 0% |
| Common shares issued and outstanding (millions) | **175.7** | 175.7 | 0% |

(1) In addition to bank debt, the Company has $90.0 million principal amount of convertible debentures outstanding with a coupon of 5% per annum, maturing May 31, 2021.

Despite a significant rally in both oil and gas prices since Kelt prepared its initial 2017 estimates, the Company has not changed its forecasted oil and gas prices for 2017. WTI crude oil prices are forecasted to average US$52.00 per barrel in 2017, up 20% from an estimated average price of US$43.25 per barrel in 2016. AECO natural gas prices are forecasted to average $2.95 per GJ in 2017, up 45% from an estimated average price of $2.04 per GJ in 2016.

Forecast average production of 23,000 BOE per day in 2017 represents a 10% increase from forecast average production of 21,000 BOE per day in 2016 and is estimated to be weighted 40% to oil and NGLs and 60% to gas. However, based on the Company's forecasted commodity prices for 2017, 69% of forecasted operating income in 2017 is expected to be generated from oil and NGLs versus 31% from gas. Kelt exited 2016 with approximately 20,000 BOE per day of production. Pad drilling production additions in 2017 from Inga/Fireweed in BC are anticipated to occur in the later part of 2017 and therefore are not fully reflected in the average production forecast for 2017. However, the Company expects 2017 exit production to be approximately 25% higher than 2016 exit production.

After giving effect to the aforementioned production estimates, commodity price assumptions, estimated expenses and the Karr property disposition: Funds from operations for 2017 is forecasted to be approximately $128.0 million or $0.73 per common share, diluted; Kelt estimates that the Company's bank debt, net of working capital, will be approximately $52.0 million as at December 31, 2017; Royalties are expected to average 11.2% of oil and gas sales in 2017; During 2017, combined production and transportation expense is estimated to be $11.59 per BOE ($8.88 per BOE and $2.71 per BOE respectively); G&A expense is estimated to be $0.91 per BOE; and interest expense is forecasted at $0.83 per BOE.

Kelt expects to keep three rigs active in its core Montney operating areas of BC and Alberta during the first quarter of 2017. At spring break-up, the Company will re-evaluate its spending plans for the remainder of 2017. With continued improvement in oil and gas prices, Kelt may consider increasing its capital program for the balance of 2017 at that time.

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

**ADVISORY REGARDING FORWARD-LOOKING STATEMENTS**

This press release 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" and similar expressions are intended to identify forward-looking information or statements. In particular, this press release contains forward-looking statements pertaining to the following: the expected closing of the divestment of assets at Karr, Alberta; the expectation that pad drilling should result in significant savings in per well capital expenditures and lower per unit operating expenses; the Company's ability to continue accumulating land at a low-cost in its core operating areas; and the Company's expected future financial position and operating results, as well as the amount and timing of future development capital expenditures. 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.

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 (e.g., 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; and competition from other explorers) as well as general economic conditions, stock market volatility; and the ability to access sufficient capital. We caution that the foregoing list of risks and uncertainties is not exhaustive.

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.

Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding Kelt's reasonable expectations as to the anticipated results of its proposed business activities for 2017. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

## NON-GAAP MEASURES

This press release contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. As these 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.

"Operating income" is calculated by deducting royalties, production expenses and transportation expenses from oil and gas revenue, after realized gains or losses on associated financial instruments. The Company refers to operating income expressed per unit of production as an "Operating netback". "Funds from operations" is calculated by adding back transaction costs associated with acquisitions and dispositions, provisions for potential credit losses, settlement of decommissioning obligations and the change in non-cash operating working capital to cash provided by operating activities. Funds from operations per common share is calculated on a consistent basis with profit (loss) per common share, using basic and diluted weighted average common shares as determined in accordance with GAAP. Funds from operations and operating income or netbacks are used by Kelt as key measures of performance and are not intended to represent operating profits nor should they be viewed as an alternative to cash provided by operating activities, profit or other measures of financial performance calculated in accordance with GAAP.

"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.

The term "net bank debt" is used synonymously with, and is equal to, "bank debt, net of working capital". "Net bank debt" is calculated by adding the working capital deficiency to bank debt. The working capital deficiency is equal to total current assets net of total current liabilities, excluding the current portion of bank debt. The Company uses a "net bank debt to trailing funds from operations ratio" as a benchmark on which management monitors the Company's capital structure and short-term financing requirements.

## MEASUREMENTS

All dollar amounts are referenced in thousands of Canadian dollars, except when noted otherwise. This press release 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. References to oil in this press release include crude oil and field condensate. References to natural gas liquids ("NGLs") include pentane, butane, propane, and ethane. References to gas in this press release include natural gas and sulphur. Such abbreviation may be misleading, particularly if used in isolation.

**ABBREVIATIONS**

| | |
|---|---|
| bbls | Barrels |
| bbls/d | barrels per day |
| mcf | thousand cubic feet |
| mcf/d | thousand cubic feet per day |
| mmcf | million cubic feet |
| mmcf/d | million cubic feet per day |
| MMBTU | million British Thermal Units |
| GJ | Gigajoule |
| BOE | barrel of oil equivalent |
| BOE/d | barrel of oil equivalent per day |
| NGLs | natural gas liquids |
| IP22 | initial production from a well for the first 528 hours (22 days) based on operating/producing hours |
| AECO | Alberta Energy Company “C” Meter Station of the Nova Pipeline System |
| WTI | West Texas Intermediate |
| NYMEX | New York Mercantile Exchange |
| US$ | United States dollars |
| CA$ | Canadian dollars |
| TSX | the Toronto Stock Exchange |
| KEL | trading symbol for Kelt Exploration Ltd. common shares on the TSX |
| KEL.DB | trading symbol for Kelt Exploration Ltd. 5% convertible debentures on the TSX |
| GAAP | Generally Accepted Accounting Principles |
| FDC | Future Development Capital |
| MRF | Modernized Royalty Framework (Alberta) |

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