**PRESS RELEASE:** For immediate dissemination

# KELT INCREASES CAPITAL EXPENDITURE BUDGET, ENTERS INTO AGREEMENT TO ACQUIRE STRATEGIC ASSETS AND INCREASES 2013 PRODUCTION GUIDANCE

**CALGARY, Alberta, August 1, 2013 ("KEL" - TSX)** – Kelt Exploration Ltd. ("Kelt" or the "Company") has entered into an agreement with a Canadian oil and gas company to acquire certain natural gas assets located at Fireweed, adjacent to the Company's core producing area at Inga, in northeastern British Columbia. The acquisition has an effective date of April 1, 2013 and is subject to standard industry closing conditions. Closing is expected to occur on or around August 9, 2013. Kelt is acquiring a 50% working interest in the Fireweed assets and its partner at Inga, Artek Exploration Ltd. ("Artek"), is also acquiring a 50% working interest in the assets. Artek currently operates the Inga property and will become operator of the Fireweed assets at closing. Financial and operating information provided herein reflect only Kelt's working interest relating to the Fireweed assets to be acquired.

The consideration to be paid by Kelt is $15.5 million, before closing adjustments, and will be financed by existing cash on hand. In addition, after conducting a corporate interim review and reviewing the assets to be acquired, the Company has received a commitment letter from its bank, the National Bank of Canada, whereby, Kelt's available bank credit line will be increased by $16.0 million to $56.0 million, upon satisfactory closing of the Fireweed asset acquisition.

<u>Key Attributes of Assets to be Acquired</u>

■ Current net production is estimated to be approximately 600 BOE per day - 79% natural gas and 21% natural gas liquids.
■ Net operating income for the first six months of 2013 was approximately $1.9 million.
■ Petroleum and natural gas reserves to be acquired were evaluated by an independent third party effective December 31, 2012. Proved developed producing reserves were 1.23 million BOE, with no associated future development costs;
■ An operated compression and dehydration facility with approximately 16 mmcf per day of gross natural gas capacity and 25 kilometres of pipeline that adds to the Company's infrastructure in the area;
■ The Fireweed assets are a complementary fit with a contiguous land position adjacent to Kelt's Inga exploration and development core area, including 11,227 net acres (15.8 net sections) of land (6,299 net acres with Doig mineral rights and 7,097 net acres with Montney mineral rights).

The Fireweed acquisition adds to Kelt's inventory of horizontal drilling locations targeting the Doig formation and provides the Company with additional acreage expanding its land base for potential exploration in the Montney formation. After giving effect to the acquisition, in its Inga/Fireweed core area, Kelt will own 26,862 net acres (40 net sections) of land with Doig rights and 32,320 net acres (48 net sections) of land with Montney rights.

Kelt expects to benefit from potential operational synergies as a result of the acquisition, and at the same time expand its land and infrastructure footprint in the Inga/Fireweed area.

**Inga Operations Update**

At Inga, to date in 2013, Kelt has participated in the drilling of five (2.0 net) horizontal wells with multi-fracture completions: three development wells targeting the Doig formation and two exploratory wells targeting the Montney formation. The 30-day initial production rate from the three Doig wells was approximately 3,000 BOE (1,200 BOE net) per day or an average of 1,000 BOE (400 BOE net) per day per well. Production was approximately 62% natural gas and 38% liquids. These three wells extend the Doig pool on the north end of Kelt's Inga play. During the second half of the year the Company plans to participate in drilling horizontal wells in the southern part of the Inga play trend, including potential pool extensions.

In addition to the Doig drilling, Kelt participated in the drilling of two (0.8 net) exploratory Montney horizontal wells during the first half of 2013. These wells are part of a three well program planned for 2013 that will utilize different completion techniques in order to provide information that helps the Company  assess what works best for potential future Montney development. The first well was completed using nitrogen foam energized water and during the first 30 days, gross production averaged 820 mcf per day of raw gas and 102 barrels per day of liquids, of which approximately 85% was condensate. This equates to average total gross sales volumes of approximately 220 BOE per day (46% liquids) with a liquids yield of 124 bbls/mmcf of raw gas. During the completion, the Company sanded off certain fracture stages and encountered an obstruction near the heel on drill out. After remedial work, it was only able to drill out to approximately half of the horizontal length initially planned. An analysis conducted by the Company suggests that considerable formation damage occurred during the completion.

The second Montney well was drilled approximately 1.5 miles to the south and was logged and cored with a pilot well, and subsequently drilled out horizontally. This well was completed using propane and during the first 30 days, gross production averaged 2.5 mmcf per day of raw gas and 286 barrels per day of liquids, of which approximately 77% was condensate. This equates to total average gross sales volumes of approximately 637 BOE per day (45% liquids) with a liquids yield of 114 bbls/mmcf of raw gas.

The Company is encouraged by the initial results from its Montney exploration program and the high liquids yields enhance the well economics in the current commodity price environment. The third Montney test at Inga is scheduled for early fall.

**2013 Capital Budget**

The Company's Board of Directors have increased Kelt's 2013 capital expenditure budget by $70.0 million as outlined in the following table:

| | Previous Budget ($ MM) | New Budget ($ MM) | Increase ($ MM) | Percent Increase |
|---|---|---|---|---|
| Drilling & Completions | 54.7 | 96.0 | 41.3 | 76% |
| Facilities, Equipment & Pipelines | 11.0 | 18.0 | 7.0 | 64% |
| Land & Seismic | 11.3 | 18.0 | 6.7 | 59% |
| Property Acquisitions | - | 15.0 | 15.0 | - |
| **Total Capital Expenditures** | **77.0** | **147.0** | **70.0** | **91%** |

To date in 2013, Kelt has been pleased with drilling results in its core areas. Under the new capital budget, Kelt expects to drill and/or complete 24 gross (15.0 net) wells during the year: 8 gross (6.8 net) wells at Karr, Alberta; 12 gross (4.8 net) wells at Inga, British Columbia; and 3 gross (2.5 net) wells at Grande Cache, Alberta.

In summary, new drilling plans added to the 2013 capital expenditure budget include 2.5 net wells at Grande Cache, 1.0 well at Karr, 1.6 net wells at Inga and 1.0 exploratory well in a new area. At Karr, the Company is targeting light oil in the Triassic Montney formation. At Inga, in 2013, Kelt will participate in the drilling of nine gross wells in its Doig development play and in three gross exploratory wells targeting the Triassic Montney formation. At Grande Cache, the Company will drill two gross exploratory wells targeting natural gas in the Falher formation and one well targeting oil in the Chinook formation.

**Revised 2013 Guidance**

After giving effect to the increased capital expenditure budget and the acquisition of assets, Kelt has revised its 2013 guidance as follows:

| | Previous Guidance | Revised Guidance | Percent Change |
|---|---|---|---|
| Average 2013 Production (BOE/d) | 3,200 | 3,500 | 9% |
| Exit 2013 Production (BOE/d) | 4,000 | 4,900 | 22% |
| | | | |
| WTI oil price (US$/bbl) | 90.00 | 90.00 | - |
| NYMEX natural gas price (US$/MMBTU) | 4.10 | 4.10 | - |

| | | | |
|---|---|---|---|
| AECO natural gas price ($/GJ) | 3.55 | 3.55 | - |
| Exchange rate (US$/CA$) | 0.9804 | 0.9804 | - |
| | | | |
| Funds from operations ($MM) | 23.4 | 25.1 | 7% |
| Per share, diluted | 0.32 | 0.35 | 9% |

The impact on production relating to the increased exploration and development spending is partially reflected in the 2013 exit production rate; however, the majority of the impact will occur in early to mid-2014. The impact of the Fireweed acquisition is reflected in the exit 2013 production rate shown in the above table.

**Financial Position**

After giving effect to the acquisition and the increased capital expenditure program, Kelt estimates that it will have bank debt, net of working capital, of approximately $17.0 million at the end of 2013. Given its new bank line of $56.0 million, the Company expects to have sufficient financial flexibility to carry out its operations during the year and pursue new opportunities as they arise.

**About Kelt**

Kelt is a Calgary, Alberta, Canada-based oil and gas company focused on exploration, development and production of crude oil and natural gas resources, primarily in west central Alberta and northeastern British Columbia. Kelt's land holdings are located in three core areas: (a) a natural gas property at Grande Cache, Alberta; (b) a liquids-rich natural gas property at Inga, British Columbia; and (c) an oil prospect at Karr, Alberta.

**Cautionary Statement and Advisory Regarding Forward-Looking Statements and Information**

Certain information with respect to the Company contained herein, including expectations, beliefs, plans, goals, objectives, assumptions, information and statements about future events, conditions, results of operations, performance, Kelt's planned capital expenditure program, or management's assessment of future potential, contain forward-looking statements. In particular, forward-looking statements contained in this press release include, but are not limited to: the expected closing of the Fireweed acquisition, the resultant operational synergies and the increase to Kelt's bank credit line, the results of Kelt's ongoing drilling operations at Inga, B.C. and the impact on production relating to the increased 2013 capital expenditure budget. These forward-looking statements are based on assumptions and are subject to numerous risks and uncertainties, certain of which are beyond the Company'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. We caution that the foregoing list of risks and uncertainties is not exhaustive.

Statements relating to "reserves" are deemed to be forward looking statements as they involve the implied assessment, based on current estimates and assumptions that the reserves can be profitably produced in the future. Readers are cautioned that disclosure of any well test results or initial well production rates are not necessarily indicative of long-term performance.

Kelt's actual results, performance or achievement could differ materially from those expressed 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. As a result, undue reliance should not be placed on forward-looking statements.

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 the periods indicated. 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 readers. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used. "Operating netback" is calculated by deducting royalties, production expenses and transportation expenses from oil and gas revenue. "Funds from operations" is calculated by adding back settlement of decommissioning obligations and 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 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.

**Measurements and Abbreviations**

All dollar amounts are referenced in thousands of Canadian dollars, except when noted otherwise. Where amounts are expressed on a barrel of oil equivalent ("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. 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.

| | |
|---|---|
| bbls | Barrels |
| mcf | thousand cubic feet |
| MMBTU | million British Thermal Units |
| AECO-C | Alberta Energy Company "C" Meter Station of the Nova Pipeline System |
| WTI | West Texas Intermediate |
| NYMEX | New York Mercantile Exchange |

**Further Information**

For further information, please contact:

**Kelt Exploration Ltd.,** Suite 600, 321 – 6th Avenue SW, Calgary, Alberta, Canada T2P 3H3.
David J. Wilson, President and Chief Executive Officer, (403) 201-5340, or
Sadiq H. Lalani, Vice President, Finance and Chief Financial Officer, (403) 215-5310