kelt exploration

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

KELT REPORTS FINANCIAL AND OPERATING RESULTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2019

Kelt Exploration Ltd. ("Kelt" or the "Company") has released its financial and operating results for the fourth quarter and year ended December 31, 2019. The Company's financial results are summarized as follows:

FINANCIAL HIGHLIGHTS	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Petroleum and natural gas sales	**97,763**	100,350	-3	**394,356**	389,277	1
Cash provided by operating activities	**35,396**	63,656	-44	**162,488**	186,383	-13
Adjusted funds from operations (1)	**46,655**	47,140	-1	**182,521**	186,839	-2
Basic ($/ common share) (1)	**0.25**	0.26	-4	**0.99**	1.02	-3
Diluted ($/ common share) (1)	**0.25**	0.26	-4	**0.99**	1.01	-2
Profit (loss) and comprehensive income (loss)	**(2,628)**	2,843	-192	**6,572**	8,154	-19
Basic ($/ common share)	**(0.01)**	0.02	-150	**0.04**	0.04	-
Diluted ($/ common share)	**(0.01)**	0.02	-150	**0.04**	0.04	-
Total capital expenditures, net of dispositions	**63,983**	70,332	-9	**315,624**	285,498	11
Total assets	**1,605,465**	1,423,521	13	**1,605,465**	1,423,521	13
Net bank debt (1)	**328,080**	196,416	67	**328,080**	196,416	67
Convertible debentures	**82,789**	78,390	6	**82,789**	78,390	6
Shareholders' equity	**923,062**	893,796	3	**923,062**	893,796	3
Weighted average shares outstanding (000s)						
Basic	**184,763**	183,994	-	**184,302**	182,576	1
Diluted	**185,108**	184,682	-	**184,946**	184,393	-

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

FINANCIAL STATEMENTS

Kelt's audited annual consolidated annual financial statements and related notes for the year ended December 31, 2019 will be available to the public on SEDAR at www.sedar.com and will also be posted on the Company's website at www.keltexploration.com on March 9, 2020.

Kelt’s operating results for the fourth quarter and year ended December 31, 2019 are summarized as follows:

OPERATIONAL HIGHLIGHTS	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Average daily production						
Oil (bbls/d)	**9,900**	9,301	6	**9,361**	8,403	11
NGLs (bbls/d)	**4,888**	3,783	29	**4,490**	3,186	41
Gas (mcf/d)	**98,844**	93,759	5	**96,658**	92,502	4
Combined (BOE/d)	**31,262**	28,711	9	**29,961**	27,006	11
Production per million common shares (BOE/d) (1)	**169**	156	8	**163**	148	10
Average realized prices, before financial instruments (1)						
Oil ($/bbl)	**63.25**	38.77	63	**66.94**	65.82	2
NGLs ($/bbl)	**21.01**	27.75	-24	**20.62**	33.81	-39
Gas ($/mcf)	**2.95**	6.37	-54	**3.26**	3.76	-13
Operating netbacks ($/BOE) (1)						
Petroleum and natural gas sales	**33.99**	37.99	-11	**36.06**	39.49	-9
Cost of purchases	**(1.35)**	(1.05)	29	**(1.53)**	(2.19)	-30
Average realized price, before financial instruments (1)	**32.64**	36.94	-12	**34.53**	37.30	-7
Realized gain (loss) on financial instruments	**(0.11)**	(2.23)	-95	**(0.08)**	(0.60)	-87
Average realized price, after financial instruments (1)	**32.53**	34.71	-6	**34.45**	36.70	-6
Royalties	**(1.25)**	(2.10)	-40	**(1.76)**	(3.11)	-43
Production expense	**(9.09)**	(8.58)	6	**(9.18)**	(9.11)	1
Transportation expense	**(3.54)**	(4.64)	-24	**(4.62)**	(3.92)	18
Operating netback (1)	**18.65**	19.39	-4	**18.89**	20.56	-8
Total landholdings						
Gross acres	**1,053,445**	1,075,090	-2	**1,053,445**	1,075,090	-2
Net acres	**819,557**	838,990	-2	**819,557**	838,990	-2

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

MESSAGE TO SHAREHOLDERS

The energy sector is currently experiencing high volatility with fluctuating crude oil prices driven by fears of a retraction in global economic growth. In addition, natural gas prices in most major U.S. gas hubs are trading at low levels coming out of a warmer than average winter in North America. Kelt has taken measures to mitigate near term commodity price volatility by entering into fixed price swap contracts for the first half of 2020 on crude oil and for the summer of 2020 on natural gas.

Average production for the three months ended December 31, 2019 was 31,262 BOE per day, up 9% compared to average production of 28,711 BOE per day during the fourth quarter of 2018. Daily average production in the fourth quarter of 2019 was marginally higher than average production of 31,150 BOE per day in the third quarter of 2019. Kelt achieved a record high calendar year average production in 2019 of 29,961 BOE per day, up 11% from average production of 27,006 BOE per day in 2018. Production for 2019 was weighted 46% to oil and NGLs and 54% to gas.

Kelt’s realized average oil price during the fourth quarter of 2019 was $63.25 per barrel, up 63% from $38.77 per barrel in the fourth quarter of 2018 and down 3% from $65.41 per barrel in the third quarter of 2019. The

Company’s realized average NGLs price during the fourth quarter of 2019 was $21.01 per barrel, down 24% from $27.75 per barrel in the fourth quarter of 2018 and up 26% from $16.64 per barrel in the third quarter of 2019. Kelt’s realized average gas price for the fourth quarter of 2019 was $2.95 per MCF, down 54% from $6.37 per MCF in the fourth quarter of 2018 and up 27% from the realized average gas price of $2.32 per MCF in the third quarter of 2019.

For the three months ended December 31, 2019, revenue was $97.8 million and adjusted funds from operations was $46.7 million ($0.25 per share, diluted), compared to $100.3 million and $47.1 million ($0.26 per share, diluted) respectively, in the fourth quarter of 2018. At December 31, 2019, bank debt, net of working capital (“net bank debt”) was $328.1 million, up 67% from $196.4 million at December 31, 2018. The ratio of net bank debt to annualized quarterly adjusted funds from operations for the year was 1.8 times at December 31, 2019.

Net capital expenditures incurred during the three months ended December 31, 2019 were $64.0 million and for the year ended December 31, 2019, net capital expenditures were $315.6 million. During 2019, the Company spent $184.7 million on drill and complete operations, $129.0 million on equipment, facilities and pipelines and $3.6 million on land and seismic. During the year, Kelt realized proceeds of $8.9 million from asset dispositions and incurred $7.2 million on asset acquisitions.

As at December 31, 2019, Kelt’s net working interest land holdings were 819,557 acres (1,280 sections). Kelt is focused on long-term value creation by accumulating significant land acreage on resource style plays, with a primary focus on Triassic Montney oil and liquids-rich gas plays. At December 31, 2019, Kelt’s net Montney land holdings were 517,208 acres (808 sections).

At Inga/Fireweed, Kelt continued operations on its first 24-well Montney cube pad. All 24 wells were drilled by the end of 2019 and the Company moved forward the completion of three of the wells from the third group of six wells to the fourth quarter of 2019, leaving six wells from the fourth group to be completed in the first quarter of 2020. During the fourth quarter of 2019, the Company commenced the installation of a 40-kilometre, 16-inch pipeline that will be capable of transporting 300 MMcf per day of natural gas from its Inga 2-10 facility to the newly constructed AltaGas Townsend Deep-Cut Gas Plant, expected to be on-stream in April 2020. Kelt will benefit from higher liquids recoveries, increased netbacks for its propane barrels based on current far-east Asia prices and lower processing fees for its Inga/Fireweed gas that will be diverted to the AltaGas Townsend Deep-Cut Gas Plant.

At Oak/Flatrock, Kelt began the drilling of a nine well development program in late December 2019 that is expected to be finished during the first half of 2020. Capital expenditures relating to completion operations for these wells, pipeline tie-ins and battery (“Oak facility”) construction are all planned for the second half of 2020. Ten wells (three previously drilled and completed and seven new wells from the 2020 program) are expected to be tied into the Oak facility in 2020 and an additional two wells are slated to be connected during 2021. The Company’s single well tested in the Middle Montney formation at Oak appears to have lower condensate to gas ratios than the Upper Montney which has ratios ranging from 100 to 150 barrels per MMcf of raw gas. All nine wells planned in the 2020 development program at Oak will be targeting the Upper Montney formation.

At Wembley/Pipestone, Kelt installed compression at its newly constructed battery and facility located at 01-14-072-08W6. Although this project was originally planned for 2020, it was brought forward to 2019 as it allows the Company to produce into a higher than anticipated linepack delivering gas and condensate to the Tidewater Pipestone Sour Deep-Cut Gas Processing Plant (the “Pipestone Plant”). Although run times at the Pipestone Plant have not met Kelt’s expectations, the operator of the plant continues to troubleshoot items which should lead to more consistent run times in the future. Kelt wells in the Wembley/Pipestone area have been performing well with oil/condensate to gas ratios during the fourth quarter of 2019 averaging approximately 170 barrels per MMcf of raw gas.

Kelt's current commodity price forecast for 2020 assumes that WTI crude oil prices will average US$52.00 per barrel and NYMEX Henry Hub natural gas prices will average US$2.25 per MMBtu. With the recent volatility in both oil and gas prices, the Company expects to provide an updated 2020 commodity price forecast to shareholders early in May when Kelt reports its 2020 first quarter results.

The Company will re-evaluate its spending plans for the remainder of 2020 after the first quarter is complete. Kelt is currently planning to defer certain capital expenditures that were previously expected to be incurred in the second quarter of 2020 to the second half of 2020. The Company's forecasted capital expenditures for 2020 is $225.0 million which is in line with forecasted adjusted funds from operations of $225.0 million. Kelt will continue to monitor oil and gas prices and if necessary, will adjust its capital expenditures downwards if commodity prices continue to drift lower during 2020.

Kelt expects to report to shareholders its 2020 first quarter results on or about May 7, 2020.

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.

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 2020. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

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", "execute", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "forecasted" 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: Kelt's expected price realizations and future commodity prices; expectations for operating costs, transportation expenses and royalties, the cost and timing of future capital expenditures and expected well results; anticipated production volumes; 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.

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; 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 the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

Any reference in this press release to IP rates is useful in confirming the presence of hydrocarbons. IP rates are not determinative of the rates at which wells will continue production and decline thereafter and are not necessarily indicative of long term performance. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production for the Company.

NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS

This press release contains certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP. In addition, this press release contains other key performance indicators (“KPI”), financial and non-financial, that do not have standardized meanings under the applicable securities legislation. As these non-GAAP financial measures and KPI 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

“Operating income” is 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 associated financial instruments. The Company refers to operating income expressed per unit of production as an “operating netback”.

“Adjusted funds from operations” is calculated as cash provided by operating activities before changes in non-cash operating working capital, and adding back (if applicable): transaction costs associated with acquisitions and dispositions, provisions for potential credit losses, and settlement of decommissioning obligations. Adjusted 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.

Adjusted funds from operations, annualized quarterly adjusted funds from operations and operating income or netbacks are non-GAAP measures used by management to measure operating performance. Adjusted funds from operations, annualized quarterly adjusted funds from operations, and operating income or netbacks are non-GAAP measures used by management as a key measure to assess the ability of the Company to fund operating activities, capital expenditures and the repayment of debt however; it is not intended to be viewed as an alternative to cash provided by operating activities, profit or other measures of financial performance calculated in accordance with GAAP. The following table reconciles cash provided by operating activities reported in accordance with GAAP to *Adjusted funds from operations*:

	Three months ended December 31			Year ended December 31		
(CA$ thousands, except as otherwise indicated)	**2019**	2018	%	**2019**	2018	%
Cash provided by operating activities	**35,396**	63,656	-44	**162,488**	186,383	-13
Change in non-cash working capital	**11,045**	(16,623)	-166	**17,699**	(538)	-3,390
Funds from operations	**46,441**	47,033	-1	**180,187**	185,845	-3
Provision for potential credit losses	**-**	(128)	-100	**-**	(128)	-100
Settlement of decommissioning obligations	**214**	235	-9	**2,334**	1,122	108
Adjusted funds from operations	**46,655**	47,140	-1	**182,521**	186,839	-2

Throughout this press release, reference is made to “total revenue”, “Kelt Revenue” and “average realized prices”. “Total revenue” refers to petroleum and natural gas sales (before royalties) as reported in the consolidated financial statements in accordance with GAAP, and is before realized gains or losses on financial instruments. "Kelt Revenue" is a non-GAAP measure and is calculated by deducting the cost of purchases from petroleum and natural gas sales (before royalties). “Average realized prices” are calculated based on “Kelt Revenue” divided by production and reflect the Company's realized selling prices plus the net benefit of oil blending/marketing activities. 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 total petroleum and natural gas sales as reported in the Consolidated Statement of Profit (Loss) and Comprehensive Income (Loss) 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, management believes that disclosing its average realized prices based on Kelt Revenue is more appropriate and useful, because the cost of third party volumes purchased to generate the incremental marketing revenue has been deducted.

“Average realized prices” referenced throughout this press release are before financial instruments, except as otherwise indicated as being after financial instruments.

“Net bank debt” 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. The Company uses a “net bank debt to annualized quarterly adjusted funds from operations ratio” as a benchmark on which management monitors the Company’s capital structure and short-term financing requirements. Management believes that this ratio, which is a non-GAAP financial measure, provides investors with information to understand the Company’s liquidity risk. The “net bank debt to annualized quarterly adjusted funds from operations ratio” is also indicative of the “debt to EBITDA” 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).

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. Such abbreviation may be misleading, particularly if used in isolation. References to “oil” in this press release include crude oil and field condensate. References to “natural gas liquids” or “NGLs” include pentane, butane, propane, and ethane. References to “liquids” include field condensate and NGLs. References to “gas” in this discussion include natural gas and sulphur.

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
tcf	trillion cubic feet
MMBTU	million British Thermal Units
GJ	gigajoule
BOE	barrel of oil equivalent
BOE/d	barrel of oil equivalent per day
NGLs	natural gas liquids
LNG	liquefied natural gas
AECO	Alberta Energy Company "C" Meter Station of the NOVA Pipeline System
NIT	NOVA Inventory Transfer ("AB-NIT"), being the reference price at the AECO Hub
WTI	West Texas Intermediate
NYMEX	New York Mercantile Exchange
Station 2	Spectra Energy receipt location
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
CDE	Canadian Development Expenses, as defined by the *Income Tax Act* (Canada)
CEE	Canadian Exploration Expenses, as defined by the *Income Tax Act* (Canada)
GAAP	Generally Accepted Accounting Principles

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