



**PRESS RELEASE**

(Stock Symbol “KEL” – TSX)

May 7, 2020

Calgary, Alberta

**KELT REPORTS FINANCIAL AND OPERATING RESULTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2020**

Kelt Exploration Ltd. (“Kelt” or the “Company”) reports its financial and operating results to shareholders for the first quarter ended March 31, 2020. In addition, Kelt is providing a corporate update in response to the current market conditions resulting from the COVID-19 pandemic.

The Company’s financial results are summarized as follows:

<b>FINANCIAL HIGHLIGHTS</b> <i>(CA\$ thousands, except as otherwise indicated)</i>	Three months ended March 31		
	<b>2020</b>	2019	%
Petroleum and natural gas sales	<b>70,918</b>	102,585	-31
Cash provided by operating activities	<b>50,172</b>	53,813	-7
Adjusted funds from operations <sup>(1)</sup>	<b>27,360</b>	51,459	-47
Basic (\$/ common share) <sup>(1)</sup>	<b>0.15</b>	0.28	-46
Diluted (\$/ common share) <sup>(1)</sup>	<b>0.15</b>	0.28	-46
Profit (loss) and comprehensive income (loss)	<b>(74,085)</b>	9,369	-891
Basic (\$/ common share)	<b>(0.39)</b>	0.05	-880
Diluted (\$/ common share)	<b>(0.39)</b>	0.05	-880
Total capital expenditures, net of dispositions	<b>91,126</b>	107,962	-16
Total assets	<b>1,608,870</b>	1,515,227	6
Net bank debt <sup>(1)</sup>	<b>344,664</b>	258,351	33
Convertible debentures	<b>83,957</b>	79,426	6
Shareholders' equity	<b>850,486</b>	904,835	-6
Weighted average shares outstanding (000s)			
Basic	<b>187,794</b>	184,017	2
Diluted	<b>187,940</b>	184,617	2

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

**FINANCIAL STATEMENTS**

Kelt’s unaudited consolidated interim financial statements and related notes for the quarter ended March 31, 2020 will be available to the public on SEDAR at [www.sedar.com](http://www.sedar.com) and will also be posted on the Company’s website at [www.keltexploration.com](http://www.keltexploration.com) on May 7, 2020.

Kelt's operating results for the first quarter ended March 31, 2020 are summarized as follows:

<b>OPERATIONAL HIGHLIGHTS</b> <i>(CA\$ thousands, except as otherwise indicated)</i>	Three months ended March 31		
	2020	2019	%
Average daily production			
Oil (bbls/d)	9,684	7,806	24
NGLs (bbls/d)	4,583	3,903	17
Gas (mcf/d)	99,236	92,089	8
Combined (BOE/d)	30,806	27,057	14
Production per million common shares (BOE/d) <sup>(1)</sup>	164	147	12
Average realized prices, before financial instruments <sup>(1)</sup>			
Oil (\$/bbl)	45.58	67.17	-32
NGLs (\$/bbl)	14.37	25.20	-43
Gas (\$/mcf)	2.35	5.18	-55
Operating netbacks (\$/BOE) <sup>(1)</sup>			
Petroleum and natural gas sales	25.30	42.12	-40
Cost of purchases	(1.25)	(1.48)	-16
Average realized price, before financial instruments <sup>(1)</sup>	24.05	40.64	-41
Realized gain (loss) on financial instruments	2.60	(0.33)	-888
Average realized price, after financial instruments <sup>(1)</sup>	26.65	40.31	-34
Royalties	(1.02)	(2.01)	-49
Production expense	(10.85)	(10.14)	7
Transportation expense	(3.50)	(4.77)	-27
Operating netback <sup>(1)</sup>	11.28	23.39	-52
Total landholdings			
Gross acres	1,051,212	1,060,937	-1
Net acres	819,285	827,672	-1

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

## MESSAGE TO SHAREHOLDERS

Kelt's highest priority remains the health and safety of its employees, partners and the communities where it operates. The Company has introduced measures to protect the well-being of these stakeholders and is proud of the dedication of its workforce to maintain safe operations and business continuity in a challenging environment.

The unprecedented impact to global oil demand destruction resulting from the COVID-19 pandemic, as well as excess oil supplies, as many oil producing nations sought to gain global market share, has resulted in a collapse in crude oil prices around the world. Many regions around the world may be facing the prospect of shutting-in oil production in the near term as access to physical storage facilities becomes unavailable.

Kelt has taken measures to preserve shareholder value by entering into commodity price, currency and interest rate hedge contracts; by reducing planned capital expenditures and by implementing various cost cutting measures that will result in lower operating and G&A expenses during the remainder of 2020. In addition, Kelt is taking measures to reduce production levels to protect against selling oil at negative margins and to preserve value. With cash flow protection from Kelt's financial hedge book during the second quarter of 2020, the

Company has shut-in approximately 8,000 BOE per day of production (approximately 62% is oil and NGLs and 38% is gas). Kelt expects to bring back shut-in production starting in the third quarter of 2020 as commodity prices improve. As a result of cost cutting measures and the shut-in of lower netback production, Kelt expects a reduction in operating expenses in 2020 to \$8.74 per BOE compared with \$9.18 per BOE in 2019.

In order to protect cash flow in the near term as commodity prices continue to fluctuate at higher than historic margins, Kelt has the following hedge positions in place during the second quarter of 2020:

- 4,000 barrels per day of WTI crude oil fixed at a price of CAD \$77.55 per barrel for the months from April to June 2020;
- 3,355 barrels per day of WTI crude oil fixed at a price of CAD \$29.05 per barrel for the month of May 2020;
- 4,000 barrels per day of MSW crude oil fixed at a price of CAD \$27.50 per barrel for the month of June 2020;
- 3,000 barrels per day for the differential between WTI and MSW crude oil fixed at an amount of CAD \$6.40 per barrel;
- 1,000 barrels per day for the differential between WTI and MSW crude oil fixed at an amount of USD \$4.60 per barrel;
- 45,000 MMBtu per day of NYMEX Henry Hub natural gas fixed at a price of CAD \$2.83 per MMBtu for the months from April to November 2020; and
- 500 barrels per day of OPIS Conway propane fixed at a price of CAD \$23.35 per barrel for the months from April to December 2020.

Average production for the three months ended March 31, 2020 was 30,806 BOE per day, up 14% from average production of 27,057 BOE per day during the first quarter of 2019. Production for the three months ended March 31, 2020 was weighted 46% oil and NGLs and 54% gas.

Kelt's realized average oil price during the first quarter of 2020 was \$45.58 per barrel, down 32% from \$67.17 per barrel in the first quarter of 2019. The realized average NGLs price during the first quarter of 2020 was \$14.37 per barrel, down 43% from \$25.20 per barrel in the same quarter of 2019. Kelt's realized average gas price for the first quarter of 2020 was \$2.35 per Mcf, down 55% from \$5.18 per Mcf in the corresponding quarter of the previous year.

For the three months ended March 31, 2020, revenue was \$70.9 million and adjusted funds from operations was \$27.4 million (\$0.15 per share, diluted), compared to \$102.6 million and \$51.5 million (\$0.28 per share, diluted) respectively, in the first quarter of 2019. At March 31, 2020, net bank debt, was \$344.7 million, up from \$258.4 million at March 31, 2019. The Company and its lenders have agreed to extend the revolving period under its credit facility agreement from April 30, 2020 to May 31, 2020. Kelt expects to pursue additional opportunities to access credit support during this uncertain economic environment created by the COVID-19 crisis that is being offered by the Government of Canada, through the Business Development Bank of Canada (BDC) and Export Development Canada (EDC) as announced by the Government on April 17, 2020.

Net capital expenditures incurred during the three months ended March 31, 2020 were \$91.1 million. During the first quarter of 2020, the Company spent \$51.7 million on drill and complete operations and \$39.6 million on equipment, facilities and pipelines. Major infrastructure projects that commenced construction in 2019 are now completed. At Inga, construction of the 40-kilometre, 16-inch pipeline that will have the capability to transport 300 MMCF per day of natural gas from the Company's Inga 2-10 facility to the newly constructed AltaGas Townsend Deep-Cut Gas Plant ("Townsend Gas Plant") has been completed. Kelt expects to commence gas deliveries to the Townsend Gas Plant in the next week. At Fireweed, the Company has completed installation of its extensive infrastructure including a pipeline gathering system which connects two 5-well pads. The first 5-well pad was drilled during the first quarter of 2020, and the second 5-well pad has been constructed waiting on drilling operations to commence after a recovery in commodity prices. Kelt has begun to receive recoveries on the \$15.0 million credit under the British Columbia Infrastructure Royalty Credit Program that is associated with this infrastructure project at Fireweed. At Wembley, Kelt has completed the

construction of a pipeline and related infrastructure that connects the Company's La Glace 14-29 facility to the Tidewater Pipestone Sour Deep-Cut Gas Processing Plant ("Pipestone Plant"). Kelt's production from La Glace that had previously been shut-in due to restricted access to the Ovintiv Sexsmith Gas Plant can now be diverted to the Pipestone Plant.

As a result of the significant ongoing uncertainty in market conditions, Kelt has withdrawn its 2020 corporate guidance. In this regard, the Company currently has no immediate plans to start up drilling and completion operations on wells until there is better clarity on future commodity prices which have been negatively impacted by global oil demand destruction as a result of the COVID-19 pandemic. Capital expenditures in the second quarter are expected to be less than \$20.0 million and will be limited to the completion of existing facility and pipeline projects. For the second half of 2020, capital expenditures are currently expected to be less than \$5.0 million.

Kelt will continue to reassess its ability to reasonably estimate and provide annual guidance and plans to continue to provide corporate updates during this period of heightened volatility and uncertainty.

Management looks forward to updating shareholders with 2020 second quarter results on or about August 6, 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 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*:

<i>(CA\$ thousands, except as otherwise indicated)</i>	Three months ended March 31		
	2020	2019	%
<b>Cash provided by operating activities</b>	<b>50,172</b>	53,813	-7
Change in non-cash working capital	<b>(22,916)</b>	(3,450)	564
<b>Funds from operations</b>	<b>27,256</b>	50,363	-46
Settlement of decommissioning obligations	<b>104</b>	1,096	-91
<b>Adjusted funds from operations</b>	<b>27,360</b>	51,459	-47

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. "Net debt" is equal to "net bank debt" plus the Company's non-current financing liability. 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, as well as the Company's "net bank debt" and "net debt" which are all non-GAAP financial measures, 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 <i>Income Tax Act</i> (Canada)
CEE	Canadian Exploration Expenses, as defined by the <i>Income Tax Act</i> (Canada)
GAAP	Generally Accepted Accounting Principles

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