Kelt Reports Financial and Operating Results for the Three and Six Months Ended June 30, 2019

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CALGARY, Aug. 08, 2019 - Kelt Exploration Ltd. (TSX:KEL) (“Kelt” or the “Company”) has released its financial and operating results for the three and six months ended June 30, 2019. The Company’s financial results are summarized as follows:

FINANCIAL HIGHLIGHTS	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	2019	2018	%	2019	2018	%
Petroleum and natural gas revenue, before royalties	100,734	98,715	2	203,319	188,708	8
Cash provided by operating activities	58,639	39,183	50	112,452	92,846	21
Adjusted funds from operations (1)	45,455	47,009	-3	96,896	92,823	4
Basic ($/ common share) (1)	0.25	0.26	-4	0.53	0.51	4
Diluted ($/ common share) (1)	0.25	0.25	-	0.53	0.51	4
Profit (loss) and comprehensive income (loss)	2,740	1,702	61	12,109	1,679	621
Basic ($/ common share)	0.01	0.01	-	0.07	0.01	600
Diluted ($/ common share)	0.01	0.01	-	0.07	0.01	600
Total capital expenditures, net of dispositions	91,022	54,702	66	198,984	146,739	36
Total assets	1,577,824	1,346,701	17	1,577,824	1,346,701	17
Net bank debt (1)	308,636	157,058	97	308,636	157,058	97
Convertible debentures	80,512	76,348	5	80,512	76,348	5
Shareholders' equity	909,373	882,916	3	909,373	882,916	3
Weighted average shares outstanding (000s)						
Basic	184,151	182,708	1	184,085	181,423	1
Diluted	184,532	184,825	-	184,513	183,210	1

(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 June 30, 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 August 8, 2019.

Kelt’s operating results for the second quarter ended June 30, 2019 are summarized as follows:

OPERATIONAL HIGHLIGHTS	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	2019	2018	%	2019	2018	%
Average daily production						
Oil (bbls/d)	9,727	8,300	17	8,772	8,396	4
NGLs (bbls/d)	4,679	2,700	73	4,293	3,067	40
Gas (mcf/d)	95,450	90,723	5	93,779	90,498	4
Combined (BOE/d)	30,314	26,120	16	28,695	26,546	8
Production per million common shares (BOE/d) (1)	165	143	15	156	146	7
Average realized prices, before financial instruments(1)						

Oil ($/bbl)	72.17	80.56	-10	69.95	74.33	-6
NGLs ($/bbl)	20.28	38.67	-48	22.51	34.15	-34
Gas ($/mcf)	2.75	2.56	7	3.95	2.87	38
Operating netbacks ($/BOE) [1]						
Petroleum and natural gas revenue	36.52	41.54	-12	39.14	39.28	-
Cost of purchases	(1.56)	(3.03)	-49	(1.52)	(2.00)	-24
Average realized price, before financial instruments [1]	34.96	38.51	-9	37.62	37.28	1
Realized gain (loss) on financial instruments	0.05	-	-	(0.13)	-	-
Average realized price, after financial instruments [1]	35.01	38.51	-9	37.49	37.28	1
Royalties	(2.25)	(3.97)	-43	(2.14)	(3.35)	-36
Production expense	(8.73)	(9.14)	-4	(9.39)	(9.30)	1
Transportation expense	(5.53)	(3.83)	44	(5.17)	(3.61)	43
Operating netback [1]	18.50	21.57	-14	20.79	21.02	-1
Undeveloped land						
Gross acres	679,904	761,429	-11	679,904	761,429	-11
Net acres	585,075	644,986	-9	585,075	644,986	-9

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

MESSAGE TO SHAREHOLDERS

Average production for the three months ended June 30, 2019 was 30,314 BOE per day, up 16% compared to average production of 26,120 BOE per day during the second quarter of 2018. Quarter-over-quarter, daily average production in the second quarter of 2019 was 12% higher than average production of 27,057 BOE per day in the first quarter of 2019. Higher quarter-over-quarter production reflects on-going new production additions from the Company’s successful development pad drilling operations at Inga/Fireweed. Production for the three months ended June 30, 2019 was weighted 48% oil and NGLs and 52% gas. However, operating income was weighted 90% oil and NGLs and 10% gas.

Kelt’s realized average oil price during the second quarter of 2019 was $72.17 per barrel, down 10% from $80.56 per barrel in the second quarter of 2018. The realized average NGLs price during the second quarter of 2019 was $20.28 per barrel, down 48% from $38.67 per barrel in the same quarter of 2018. The significant decrease in NGL prices were due to much weaker propane and butane prices at Edmonton. In British Columbia, where the Company has oil blending operations that result in premium liquids pricing, Kelt’s direct oil sales were impacted during the Husky Prince George Refinery turnaround operations that occurred from April 8, 2019 to June 16, 2019, resulting in lower liquids pricing and higher oil transportation expenses.

Kelt’s realized average gas price for the second quarter of 2019 was $2.75 per Mcf, up 7% from $2.56 per Mcf in the corresponding quarter of the previous year. Kelt benefits with premium natural gas price realizations compared to AECO as a result of its gas market diversification portfolio and high heat content gas. During the second quarter of 2019, the Company’s realized average gas price per Mcf was 167% higher than the average AECO 5A price of $1.03 per MMBtu.

For the three months ended June 30, 2019, revenue was $100.7 million and adjusted funds from operations was $45.5 million ($0.25 per share, diluted), compared to $98.7 million and $47.1 million ($0.25 per share, diluted) respectively, in the second quarter of 2018.

Net capital expenditures incurred during the three months ended June 30, 2019 were $91.0 million. During the second quarter of 2019, the Company spent $57.1 million on drill and complete operations, $36.2 million on equipment, facilities and pipelines and $1.4 million on land and seismic. Property dispositions, net of property acquisitions were $3.7 million during the quarter.

During the second quarter of 2019, Kelt’s production was negatively impacted by firm gas transportation service restrictions on TC Energy’s NGTL system, temporary shut-ins from producing Inga wells during completion operations on the Inga 24-well pad and intermittent downtime at the Encana

Sexsmith Gas Plant where the Company processes gas from its La Glace field. In order to mitigate the impact of production disruptions resulting from these events, Kelt elected to advance its 2019 capital expenditure program. In doing so, the Company was also able to take advantage of significant cost savings on its continuing drilling and completion operations. Approximately $30.0 million in capital expenditures relating to capital projects that were originally budgeted for the third quarter of 2019 were completed during the second quarter of 2019, including the following:

- completion operations for six wells from the Inga 24-well pad (wells #7 to #12);
- drilling operations for six wells from the Inga 24-well pad (wells #13 to #18); and
- drilling operations for one well at Oak.

At June 30, 2019, bank debt, net of working capital was $308.6 million. During the second half of 2019, Kelt is forecasting higher funds from operations compared to estimated capital expenditures, resulting in bank debt, net of working capital of approximately $258.0 million at December 31, 2019.

OPERATIONS UPDATE

Inga/Fireweed Core Area

At Inga, Kelt completed six wells (wells #7 to #12) on its 24-well pad Montney cube development program. Four of the six wells have been put on production and the remaining two wells are expected to be put on production this week. Initial production rates from these wells have exceeded the Company’s expectations. The average drill and complete cost per well was $4.8 million, a 4% reduction from the average drill and complete cost of $5.0 million per well for the first six wells and 11% lower than the original budgeted average drill and complete cost of $5.4 million per well. The Company is pleased with the higher capital efficiencies on the second batch of six wells considering that the total amount of proppant pumped into the wells averaged 3,528 tonnes per well, a 15% increase from an average 3,074 tonnes per well of proppant pumped into the first six wells drilled from the pad. Kelt has been able to improve costs through drilling efficiencies resulting in lower drill times and completion efficiencies resulting from the use of the Company’s newly installed water handling facilities. Additional savings are being realized by using bi-fuel (natural gas capable) frac pumpers and on-site fuel gas further reducing costs and at the same time, improving the Company’s carbon footprint. A summary of the drill and complete operations for these wells is shown in the table below:

Well	Montney Zone	Completion Technology	Drill & Complete (MM)	Total Proppant (tonnes)	Proppant per Metre (tonnes)	Total Frac Fluid (m3)	Avg. Frac Intensity (m3/min)
00/16-17 (H4-9)	Upper	Open Hole Ball-Drop	$ 4.6	3,398	1.25	23,657	11.0
02/15-17 (J4-9)	Upper	Open Hole Ball Drop	$ 4.7	3,406	1.21	22,153	11.0
03/16-17 (F4-9)	IBZ	Plug and Perf	$ 4.4	3,288	1.33	26,730	11.2
03/15-17 (I4-9)	IBZ	Plug and Perf	$ 5.0	3,516	1.33	27,891	10.7
02/16-17 (G4-9)	Middle	Open Hole Ball-Drop	$ 4.3	3,440	1.27	22,158	11.2
00/15-17 (K4-9)	Middle	Plug and Perf	$ 5.9	4,120	1.56	27,268	11.2

The next six wells (wells #13 to #18) on the 24-well pad were also drilled in the second quarter and are expected to be completed during the third quarter of 2019. Included in these six wells is one well targeting the Lower Middle Montney horizon. This will be the Company’s first Lower Middle Montney test on its Inga/Fireweed land acreage. The first six wells (wells #1 to #6) were put on production during the second quarter and were temporarily shut-in for a short period while the Company was completing the second batch of six wells. Production volumes from each of these first six wells for the respective initial 30 days (approximately 720 operating hours) in aggregate were 6,569 BOE per day (77% oil and NGLs), exceeding the Company’s expected range of 5,800 to 6,200 BOE per day (60% to 65% oil and NGLs).

At Fireweed, the Company was ahead of schedule putting five Upper and Middle Montney single pad wells on production during the second quarter. These wells that were previously drilled in 2018 and which were expected to be put on production in the third quarter of 2019, were tied-in ahead of schedule with production commencing in the second quarter of 2019. Production volumes from each of these five wells for the respective initial 30 days (approximately 720 operating hours) in aggregate were 5,281 BOE per day (72% oil and NGLs), within the Company’s expected range of 5,200 to 5,500 BOE per day (60% to 65% oil and NGLs).

Kelt has entered into an agreement with AltaGas Ltd. (“AltaGas”) whereby the Company will construct a 16-inch gas pipeline from its Inga 2-10 facility to the AltaGas Townsend Deep-Cut Gas Plant. The total cost to build the pipeline is estimated to be approximately $39.0 million and ownership of the pipeline will be two-thirds Kelt and one-third AltaGas. The pipeline will have a capacity to transport up to approximately 300 MMcf per day of natural gas. AltaGas will reimburse Kelt the full amount of $39.0 million ($13 million during construction and $26 million after construction) and in return Kelt has agreed to make annual payments over 10 years as repayment for its share of the cost of the pipeline (approximately $26.0 million). The annual payments to AltaGas over ten years are representative of payments that would have been required if Kelt did not take an ownership interest in the pipeline but instead entered into a take-or-pay arrangement to deliver gas through the pipeline as a third party. Under such an arrangement, Kelt would not have an ownership interest in the pipeline after 10 years and would have to re-negotiate transportation terms thereafter. Under the current agreement, Kelt retains its two-thirds ownership in the pipeline after the ten year term is complete, with no further financial obligation to AltaGas.

The Government of British Columbia offers an Infrastructure Royalty Credit Program that encourages new capital investment in oil and natural gas infrastructure. The program is designed to create and sustain good paying jobs for British Columbians and stimulate new royalty revenue for the Province. Through the Infrastructure Royalty Credit Program, oil and gas companies such as Kelt can apply for a reduction to the royalties they would otherwise pay to the Province under a competitive Request for Applications process. This reduction can be applied to future royalties that would otherwise be payable and is determined based on an approved percentage of the costs to build roads, pipelines and gas facilities that are approved under the program.

In 2017, Kelt made an application to the Infrastructure Royalty Credit Program and was approved for its planned infrastructure build in certain parts of its Inga/Fireweed property relating to expenditures totaling approximately $38.6 million. This infrastructure build includes the following:

- construction of a pipeline route comprised of a sour gas line, a sweet gas line, a sour emulsion line, a disposal water line, a frac water line and a fuel gas line;
- building and upgrading of roads and installation of a bridge; and
- installation of centralized dehydration and compression facilities.

The Government of British Columbia approved a recovery of approximately 39% of Kelt’s infrastructure expenditures or $15.0 million through the program. The amount is expected to be recovered from reduced future royalties payable relating to 20 horizontal Montney wells associated with this project. To date, Kelt has incurred over 80% of the infrastructure capital committed to under the program and has drilled 10 of the 20 horizontal Montney wells. The Company has commenced sales from these wells and expects to apply for royalty credits imminently, however, the future benefit of credits from the program are not currently reflected in the Company’s 2019 financial guidance.

Wembley/Pipestone Core Area

At Wembley/Pipestone, the Company has now drilled and completed three Upper Middle Montney (D3/D4) wells from the 1-14 pad offsetting the original discovery well located at 00/04-01-072-08W6 which had an IP30 production rate of 1,337 BOE per day (83% oil and NGLs). The average drill & complete cost per well was $5.4 million per well, 8% lower than the budgeted average cost of $5.9 million per well. Kelt has also drilled three additional Upper Middle Montney (D3/D4) wells from the 12-3 pad offsetting the 2018 well drilled from the same pad located at 00/12-05-073-08W6 which when tested, over the last three days of the test, produced average sales volumes of approximately 1,497 BOE per day (74% oil and NGLs). In August 2019, the Company expects to commence completion operations on these three wells that were drilled from the 12-3 pad. During the second quarter, the Company also drilled a single well on its main Wembley/Pipestone land block located at (03/16-08) 02/16-10-72-7W6.

At Wembley/Pipestone, Kelt is currently building a battery that will be capable of processing all of the gas, oil and water associated with the Company’s firm service commitment at the Pipestone Sour Deep-Cut Gas Processing Plant which is also currently under construction by Tidewater Midstream and Infrastructure Ltd. (“Tidewater”). The Kelt battery, consisting of dehydration, separation, treating, storage and water injection facilities, is expected to be commissioned in September coinciding with the expected start-up of the Tidewater facility. Kelt’s water injection well, which was completed earlier this year, has already been tested and used for water disposal.

OUTLOOK/GUIDANCE

As the Company prepares to ramp up production in the second half of 2019 with significant production additions from its Inga/Fireweed and Wembley/Pipestone core areas, Kelt has not changed its 2019 average production estimate that was forecasted to be in a range of 33,500 to 34,500 BOE per day. However, in light of recent third party gas plant interruptions, the Company expects its 2019 average production to be at the low end of its forecasted range. Subsequent to the end of the second quarter, the Enbridge McMahon Gas Plant, which accounts for approximately one-third of Kelt’s B.C. production, was shut down on July 30, 2019 and has indicated that it will resume operations on August 13, 2019. At La Glace, where the Company produces approximately 2,800 BOE per day through the Encana Sexsmith Gas Plant, Kelt has been experiencing interruptions in its production resulting from restrictions to the plant due to heat caused by high ambient temperatures and increased NGTL pipeline pressures.

With the recent volatility in oil and gas prices, Kelt is reducing its forecasted commodity price assumptions for 2019.

Kelt’s 2019 capital expenditure program, excluding the Company’s share of costs relating to the proposed 16-inch gas pipeline from its Inga 2-10 facility to the Townsend Deep-Cut Gas Plant, remains unchanged at $270.0 million. The cost of the pipeline of approximately $26.0 million will be incurred by Kelt during the year, however, Kelt will be reimbursed by AltaGas and in return Kelt will re-pay AltaGas based on a pre-determined fee basis over 10 years.

In addition, Kelt’s 2019 capital expenditures includes approximately $18.0 million of drilling expenditures for wells (DUCs) that are not expected to be completed until 2020:

- 6 wells at Inga/Fireweed – wells #19 to #24 from the Inga 24-well pad; and
- 2 wells at Wembley/Pipestone – 02/16-10 (sfc 03/16-08) and 00/04-24 (sfc 16-26).

Production from these eight wells (DUCs) plus an additional two wells at Oak (to be drilled and completed in 2019) is not included in the Company’s 2019 production forecast and will provide the Company with momentum for continued production growth in early 2020.

The table below summarizes Kelt’s revised financial guidance for 2019:

Commodity Prices:	2019 Forecast	Previous Forecast	Change
WTI Crude Oil (USD/bbl)	58.00	60.00	− 3%
MSW Edmonton Oil (CAD/bbl)	69.32	73.17	− 5%
NYMEX Natural Gas (USD/MMBtu)	2.80	2.85	− 2%
DAWN Gas Daily Index (USD/MMBtu)	2.70	2.75	− 2%
CHICAGO City Gate Gas Daily Index (USD/MMBtu)	2.70	2.70	N/C
MALIN Gas Monthly Index (USD/MMBtu)	2.75	2.80	− 2%
SUMAS Gas Monthly Index (USD/MMBtu)	3.50	3.50	N/C
AECO 5A Gas Daily Index (USD/MMBtu)	1.25	1.30	− 4%
Station 2 Gas NGX Daily Index (USD/MMBtu)	0.85	0.90	− 6%
Exchange Rate (USD/CAD)	1.320	1.340	− 1%
Capital expenditures, net of dispositions [1] ($ MM)	296.0	270.0	+ 10%
Adjusted funds from operations (“AFFO”) ($ MM)	220.0	240.0	− 8%
Per common share, diluted ($)	1.19	1.24	− 4%
Bank debt, net of working capital, at year-end [2] ($ MM)	258.0	235.0	+ 10%
Net bank debt to trailing AFFO ratio	1.2 x	0.9 x	

[1] Capital expenditures include $26.0 million for the 16-inch gas pipeline from Kelt’s Inga 2-10 facility to AltaGas’s Townsend Gas Plant.

[2] In addition to forecasted net bank debt at December 31, 2019, Kelt estimates 2019 year-end financial liabilities of approximately $26.0 million primarily relating to the Inga 16-inch gas pipeline (AltaGas).

During this period of volatile commodity price swings responding to headlines regarding political uncertainty and global trade wars, Kelt continues to remain disciplined financially. Management looks forward to updating shareholders with 2019 third quarter results on or about November 8, 2019.

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 2019. 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 in 2019 and 2020; the expected timing of wells commencing production, the expected timing of facility expenditures, the expected timing of facility start-up dates, 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 revenue, 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 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.

The following table reconciles cash provided by operating activities to adjusted funds from operations:

	Three months ended June 30			Six months ended June 30		
(CA$ thousands, except as otherwise indicated)	2019	2018	%	2019	2018	%
Cash provided by operating activities	58,639	39,183	50	112,452	92,846	21
Change in non-cash working capital	(14,033)	7,740	-281	(17,483)	(786)	2,124
Funds from operations	44,606	46,923	-5	94,969	92,060	3
Provision for potential credit losses	221	-	-	203	-	-
Settlement of decommissioning obligations	628	176	257	1,724	763	126
Adjusted funds from operations	45,455	47,099	-3	96,896	92,823	4

Throughout this press release, reference is made to “total revenue”, “Kelt Revenue” and “average realized prices”. “Total revenue” refers to petroleum and natural gas revenue (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 revenue (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, which commenced during the fourth quarter of 2017. 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 revenue 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 press release 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.

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

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. The Company uses a “net bank debt to annualized 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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