



## **PRESS RELEASE**

(Stock Symbol "KEL" – TSX)

July 5, 2018

Calgary, Alberta

# **KELT REPORTS INGA INFRASTRUCTURE AGREEMENT, PROVIDES AN OPERATIONS UPDATE AND EXPANDS ITS EXECUTIVE TEAM**

## **INGA INFRASTRUCTURE**

Kelt Exploration Ltd. ("Kelt" or the "Company") is pleased to announce that it has entered into a letter of intent ("LOI") with AltaGas Ltd. ("AltaGas") for firm processing of 75 MMcf per day of raw gas under a 10 year take-or-pay arrangement at AltaGas's proposed and already permitted 99 MMcf per day (expandable to 198 MMcf per day) C3+ deep-cut natural gas processing plant located at AltaGas' existing Townsend site (the "Townsend Deep Cut Gas Plant") which is expected to be constructed and on-stream by the fourth quarter of 2019. The Townsend Deep Cut Gas Plant can be expanded to 198 MMcf per day of capacity and Kelt has the option over the first three years of the initial take-or-pay term to commit to additional firm processing up to a maximum of 198 MMcf per day for a term of its choice (with a minimum commitment of an additional 10 years). The economic advantage of the Townsend Deep Cut Gas Plant will be the increased liquids that can be extracted from Kelt's rich Montney gas at Inga/Fireweed. The liquids yield extracted from the Company's Montney gas is expected to be approximately 70 barrels per MMcf at the Townsend Deep Cut Gas Plant, a significant increase compared to yields of 28 barrels per MMcf and 48 barrels per MMcf, respectively, that Kelt currently receives from the two third party gas plants where the Company presently processes its Montney gas produced at Inga/Fireweed. In addition, estimated processing costs at the proposed Townsend Deep Cut Gas Plant are expected to be lower than the costs currently being incurred by Kelt at the gas plants where Kelt currently processes its Inga/Fireweed gas.

The LOI also stipulates the following commercial arrangements, all of which are subject to the negotiation and execution of definitive agreements and receipt of customary regulatory approvals by both the parties:

- construction of a raw gas gathering pipeline from Inga to Townsend, which may include additional sales gas and liquids egress infrastructure;
- AltaGas shall provide firm transportation service on AltaGas' existing liquids pipelines for Kelt's share of C3+ and C5+ produced at the Townsend Deep Cut Gas Plant to AltaGas' North Pine Fractionation Facility ("North Pine"); and

- AltaGas shall provide firm fractionation and terminalling service at North Pine for Kelt's share of C3+ and C5+ produced at the Townsend Deep Cut Gas Plant.

In addition, Kelt expects to enter into a marketing arrangement with AltaGas whereby all of the Company's propane delivered to North Pine will receive Far East Index ("FEI") pricing. Based on current FEI prices, the netback to Kelt (after fees) for its propane would be significantly higher than what the Company currently receives.

Kelt announced in July 2017 that it had completed the purchase of a major infrastructure package for \$12.5 million located in northeastern British Columbia. The infrastructure package includes four 4,700 horsepower gas compressors with aggregate capacity of 100 MMcf per day, two 50 MMcf per day gas dehydration units, a fuel gas conditioning skid, a high pressure flare system, four 750 barrel tanks, a vapor recovery unit, instrument air compressors, three electric power generators, a master control centre building and several other buildings and associated equipment. The Company has dismantled this infrastructure from its original location and is currently in the process of moving the components to an 80-acre site at Inga located at 02-10-088-23W6. In addition, Kelt will construct large diameter gas and emulsion pipelines as well as a large diameter water line which will enable Kelt to reuse frac water as well as access additional water from two large water ponds being constructed at the Kelt Inga Facility. Once completed, the new Kelt Inga Facility will be pipeline connected to the proposed Townsend Deep Cut Gas Plant.

This infrastructure buildout and the agreement to process gas at the new Townsend Deep Cut Gas Plant will allow Kelt to proceed with its multi-well pad Montney development program at Inga in a cost effective manner.

The Government of British Columbia offers an Infrastructure Royalty Credit Program that encourages new capital investment in oil and natural gas infrastructure beyond what would occur otherwise. The program was 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 deduction to the royalties they would otherwise pay to the Province under a competitive Request for Applications process. This deduction can be as much as 50% of the cost of building roads or pipelines that are approved under the program.

Kelt made an application to the Infrastructure Royalty Credit Program and was approved for its planned infrastructure build in Inga North. This infrastructure build includes the following:

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

A portion of Kelt's total estimated Inga North infrastructure cost of \$38.6 million will be recovered from reduced future royalties payable from 20 horizontal Montney wells associated with this project through the Infrastructure Royalty Credit Program.

## PLANT TURNAROUND OPERATIONS

During the second quarter of 2018, three of the major gas plants used by Kelt to process its gas went down for plant turnaround operations:

- the Sexsmith Gas Plant where Kelt processes gas from its Valhalla/La Glace field in Alberta was down for 22 days from May 18 to June 8;
- the Progress Gas Plant where Kelt processes gas from its Pouce Coupe/Progress core area in Alberta was down for 13 days from June 8 to June 20; and
- the West Stoddart Gas Plant where Kelt processes gas from its Inga core area in British Columbia was down for 17 days from June 2 to June 18.

Major gas plant turnaround operations occur every two to four years. Kelt took advantage of the plant shut-ins by conducting its own repair and maintenance operations on oil batteries, gas compressors and other equipment. These repair and maintenance operations, which were, in some cases, planned for a future date, were moved forward to coincide with the foregoing gas plant turnaround operations. In addition, as a result of gas shut-ins during plant turnaround operations, Kelt avoided selling gas into the depressed western Canada gas market where hubs such as AECO NIT have been experiencing low or negative prices due to the NGTL repair and maintenance operations.

After giving effect to the shut-in production resulting from the plant turnaround operations described above, Kelt expects second quarter 2018 production to be in the 26,000 to 26,500 BOE per day range.

## WEMBLEY/PIPESTONE UPDATE

Kelt has been active during 2018 drilling wells in the Wembley/Pipestone area following up on its successful initial Montney exploration well located at 00/04-01-072-08W6. The Company has drilled five additional Montney wells in the area as follows:

- (i) **00/12-05-073-08W6** – this well was completed using the ball drop hydraulic fracturing method with 3,475 tonnes of proppant and frac fluid that was pumped at an average rate of 11.2 cubic metres per minute. After flowing the frac fluid back on a five day clean-up, the well, over the last three days of the test, produced average sales volumes of approximately 1,497 BOE per day (74% oil/NGLs and 26% gas). During the test, the well was restricted to a maximum gas rate of 3.5 MMcf per day due to regulatory flaring restrictions.
- (ii) **00/01-35-074-09W6** – this well was completed using the ball drop hydraulic fracturing method with 3,166 tonnes of proppant and frac fluid that was pumped at an average rate of 11.1 cubic metres per minute. Kelt is currently conducting a 30-day in-line production test through the Sexsmith Gas Plant where the Company has an ownership interest and where it currently processes all of its gas from Valhalla/La Glace.
- (iii) **00/13-13-073-08W6** – this well was completed using the ball drop hydraulic fracturing method with 3,460 tonnes of proppant and frac fluid that was pumped at an average rate of 11.4 cubic metres per minute. After flowing the frac fluid back

on a four day clean-up, the well, over the last three days of the test, produced average sales volumes of approximately 1,604 BOE per day (72% oil/NGLs and 28% gas). During the test, the well was restricted to a maximum gas rate of 3.5 MMcf per day due to regulatory flaring restrictions.

- (iv) **00/09-04-073-06W6** – this well was completed using the ball drop hydraulic fracturing method with 3,159 tonnes of proppant and frac fluid that was pumped at an average rate of 11.2 cubic metres per minute. Approximately 27% of the frac fluid was flowed back after completion and the well was shut-in for build-up prior to spring breakup. The Company expects to production test this well during the summer. This well is the most easterly located well drilled on Kelt's land block at Wembley/Pipestone.
- (v) **00/03-04-074-07W6** – this well was completed using the ball drop hydraulic fracturing method with 3,450 tonnes of proppant and frac fluid that was pumped at an average rate of 11.6 cubic metres per minute. The Company has commenced flowback and expects to production test this well during the summer.

Readers are cautioned that the foregoing test results are not necessarily indicative of long-term performance.

As previously announced, Kelt has entered into an agreement with Tidewater Midstream and Infrastructure Ltd. ("Tidewater") for firm processing of 25.0 MMcf per day of raw gas under a five year take-or-pay arrangement at Tidewater's proposed deep-cut natural gas processing plant that is expected to be constructed and on-stream by the third quarter of 2019. The Company expects to bring the majority of the aforementioned wells on-stream in 2019 when the Tidewater plant commences operations. The ability to produce solution gas on this oil prone Montney play through deep-cut gas processing facilities further enhances the overall liquids weighting in the play, which in turn provides superior economics based on current commodity prices.

#### **EXECUTIVE APPOINTMENT**

The Company is pleased to announce that Ms. Carol Van Brunschot has been promoted to the position of Vice President, Marketing. Ms. Van Brunschot joined Kelt in August 2016 as Manager, Marketing and has over 28 years' of marketing related experience in the oil and gas industry.

#### **ADVISORY REGARDING FORWARD-LOOKING STATEMENTS**

This press release contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "potentially" and similar expressions are intended to identify forward-looking information or statements. In particular, this press release contains forward-looking statements pertaining to the following: the successful negotiation of definitive agreements for firm gas processing at the Townsend Deep Cut Gas Plant, for the construction of a raw gas gathering pipeline from Inga to Townsend and for Kelt obtaining certain firm transportation service on existing AltaGas pipelines; entering into certain FEI

marketing arrangements; moving and pipeline connecting the new Kelt Inga Facility; recovery of a portion of Inga North infrastructure costs from future royalties under the Infrastructure Royalty Credit Program; the expected range of Kelt's second quarter 2018 production; the expected timing of production testing operations on Kelt's land block at Wembley/Pipestone; the timing of bringing on-stream recently drilled Montney wells in the Wembley/Pipestone area; and Tidewater's proposed deep-cut natural gas processing plant that is expected to be constructed and on-stream by the third quarter of 2019.

Although Kelt believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because Kelt cannot give any assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; failure to obtain necessary regulatory approvals for planned operations; health, safety and environmental risks; uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures; volatility of commodity prices, currency exchange rate fluctuations; imprecision of reserve estimates; and competition from other explorers) as well as general economic conditions, stock market volatility; and the ability to access sufficient capital. We caution that the foregoing list of risks and uncertainties is not exhaustive.

In addition, the reader is cautioned that historical results are not necessarily indicative of future performance. The forward-looking statements contained herein are made as of the date hereof and the Company does not intend, and does not assume any obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise unless expressly required by applicable securities laws.

## **NON-GAAP FINANCIAL MEASURES AND OTHER KEY PERFORMANCE INDICATORS**

This press release may contain 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.

## **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**

TSX	the Toronto Stock Exchange
KEL	trading symbol for Kelt Exploration Ltd. common shares on the TSX
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
BOE	barrel of oil equivalent
BOE/d	barrel of oil equivalent per day
NGLs	natural gas liquids
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
NGTL	Natural gas transmission line (or natural gas system) operated by TransCanada Corporation
GAAP	Generally Accepted Accounting Principles
KPI	Key Performance Indicators
C3+	Propane plus all other heavier natural gas liquids
C5+	Pentane plus all other heavier natural gas liquids

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