

## ASX Announcement / Media Release

15 September 2017

### ELK PETROLEUM TO ACQUIRE ANETH OIL FIELD AND CO<sub>2</sub> EOR PRODUCTION PROJECT

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- Elk Petroleum Ltd (ASX: ELK) (“Elk” or the “Company”) has entered into a purchase and sale agreement with Resolute Energy Corporation (“Resolute”) to acquire a subsidiary of Resolute which holds majority ownership in the Greater Aneth Oil Field for US\$160 million (~A\$200 million<sup>1</sup>).
  - The Aneth Oil Field in Southeastern Utah is ranked the 86<sup>th</sup> largest oil field<sup>2</sup> in the US by proven reserves and one of the largest CO<sub>2</sub> EOR projects in the Rocky Mountains with a 30-year operating history and ~450MMbbl cumulative production to date.
  - **The acquisition of Aneth is transformative for Elk:**
    - Becomes majority owner (~63%) and operator of a major Rocky Mountain CO<sub>2</sub> EOR project with the ability to control the scope and timing of further developments at Aneth
    - Becomes one of the largest oil producers on ASX with forecast 2018 net production of 11,000 boepd
    - Adds ~59 mmbbls of 2P oil reserves<sup>3</sup> and 6,500 bopd oil production effective 1 October 2017
    - Delivers significant organic growth to potentially double production to over 14,000 bopd
    - Operated interest with the potential for Elk to retain Resolute’s experienced Aneth operating team of over 90 Denver technical professionals and Aneth field operating team
    - Consolidated EBITDA of US\$50-55 million in 2017 with cash flow to equity of A\$20-25 million in 2018 that is expected to grow significantly over the next 3-5 years
  - **Attractive acquisition valuation:**
    - Acquisition is at a significant discount to proven net asset value
    - 1P Proved Developed Producing Reserves acquisition multiple of US\$5.50/bbl
    - Production acquisition multiple of approximately US\$27,000 per flowing barrel
    - Significant organic growth potential
  - **The acquisition is anticipated to be funded via:**
    - US\$22 million equity placement (~A\$27.5 million)
    - US\$98 million senior debt
    - US\$55 million unlisted preferred equity issued by Elk Petroleum, Inc., a wholly-owned subsidiary of Elk
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<sup>1</sup> FX rate of 1 AUD = 0.80 USD used to convert all USD metrics in this announcement

<sup>2</sup> U.S. Energy Information Agency report Top 100 Oil & Gas Fields March 2015

<sup>3</sup> Based on Elk internal reserves estimate supported by independently audited reserve estimate of VSO Petroleum Consultants

## Acquisition of Aneth Oil Field

Elk has entered into a purchase and sale agreement to acquire an entity which holds a ~63% operating working interest in the Aneth Field, one of the largest CO<sub>2</sub> EOR projects in the Rocky Mountains from Resolute Energy Corporation (NYSE: REN). Substantially all of the remaining working interest in the Aneth Field, which is located on Navajo Nation lands, is owned by Navajo Nation Oil and Gas Company (“NNOGC”). Elk intends to continue the relationship with NNOGC established by Resolute with respect to the development of the Aneth Field in cooperation with the Navajo Nation.

The acquisition price includes an up-front purchase price payment of US\$160 million. The purchase price also includes additional contingent oil price payments<sup>4</sup> of up to US\$10 million on the first and second anniversary date of the closing of the purchase in each of 2018 and 2019 and a third payment of up to US\$15 million on the third anniversary of the closing of the purchase in 2020 depending on oil price performance. Financial close of the acquisition is targeted for late October 2017.

## Acquisition Strategic Rationale

- **High-Quality Acquisition**
  - The Aneth Field has a long history of continuous oil production since the late 1950s with 448 MMbbls cumulative production to date
  - Adds ~59MMbbls of 2P oil reserves and 6,500 bopd oil production effective 1 October 2017
- **Significant Organic Growth Opportunities**
  - Delivers significant internally funded organic growth
  - Development of Aneth has been constrained for the past 2-3 years as Resolute has allocated capital resources to its high-quality Permian acreage
  - Opportunity to double production within 3-5 years significantly funded by internal cash flow
- **Provides Elk with Opportunity to Transform to Major CO<sub>2</sub> EOR Producer and Operator**
  - Transforms Elk into one of the ASX’s leading oil companies and operators by reserves, production & cash flow
  - Position as field operator allows Elk greater control over pace and timing of cash flows
  - Aneth brings high-quality, established operating and management team
  - Achieve Elk’s growth plan to own and operate CO<sub>2</sub> projects (Grieve and Aneth fields) as well as CO<sub>2</sub> supply (Madden field) in the geographically focused area of Northern Rockies
- **Attractive Acquisition Economics**
  - Acquisition is at a significant discount to historical proven reserve and production value
  - Strong cash flows allow for significant deleveraging over the next 2-3 years

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<sup>4</sup> *First Contingent Oil Payment (Year 1):* For each day that the WTI price is above US\$52.50/bbl during the first 12-month period after the financial close, Elk shall pay Resolute US\$40,000 capped at a max of US\$10m  
*Second Contingent Oil Payment (Year 2):* For each day that the WTI price is above US\$55/bbl during the 12-month period after first anniversary of financial close, Elk shall pay Resolute US\$50,000 capped at a max of US\$10m  
*Third Contingent Oil Payment (Year 3):* For each day that the WTI price is above US\$60/bbl during the 12-month period after the second anniversary of financial close, Elk shall pay Resolute US\$60,000 capped at a max of US\$15m

- Consolidated EBITDA of US\$50-55 million in 2018 with sustainable cash flow to equity of A\$20-25 million

## Equity Placement and Transaction Funding

The acquisition will be partially funded via a placement to institutional, professional and sophisticated investors to raise approximately US\$22 million (~A\$27.5 million) by issuing approximately 443 million new fully paid ordinary shares in Elk (the “Placement”).

The Placement price of \$0.062 represents a 22% discount to the last close share price of \$0.079 as at 14 September 2017. The Placement shares, when issued, will rank equally in all respects with Elk’s existing ordinary shares.

The shares will be issued in two tranches:

- The first tranche to raise approximately US\$10 million (~A\$12.1 million) is unconditional and settlement is expected to occur on Wednesday, 20 September 2017 with normal trading to occur on Thursday, 21 September 2017 (“Initial Placement”).
- The second tranche for the balance of approximately US\$12 million (~A\$15.4 million) is subject to ASX Listing Rule 7.1 shareholder approval that is intended to be considered by shareholders at an Extraordinary General Meeting, which is expected to be held on Friday, 27 October 2017 (“Conditional Placement”). Settlement of the Conditional Placement is expected to occur on Wednesday, 1 November 2017 with normal trading to occur on Thursday, 2 November 2017.

In addition to the Placement, the balance of the acquisition will be funded through US\$98 million senior debt by Riverstone Credit Partners, L.P. and other institutional lenders and up to US\$55 million preferred equity to be provided by AB Energy Opportunity Fund L.P., subject to negotiation of definitive documentation and satisfactory results of due diligence. Elk at its discretion has the ability to scale the preferred equity up to US\$65 million subject to demand. Contingent oil price payments will be met by cash flows from the assets.

## Indicative Placement Timetable

Item	Date
Trading halt and Announcement of Placement	Friday, 15 September 2017
Trading halt lifted and Elk shares resume trading	Monday, 18 September 2017
Settlement of Initial Placement shares	Wednesday, 20 September 2017
Issue and quotation of Initial Placement shares	Thursday, 21 September 2017
Extraordinary General Meeting to approve issue of Conditional Placement shares (expected)	Friday, 27 October 2017
Settlement of Conditional Placement shares (expected)	Wednesday, 1 November 2017
Issue and quotation of Conditional Placement shares (expected)	Thursday, 2 November 2017

The above timetable is subject to change without notice

Bradley Lingo, Elk Petroleum Managing Director, said:

*"The Aneth Oil Field is one of the most significant EOR projects in the US, underpinned by a high-quality and established operating and management team. The field is highly complementary to Elk and represents an attractive opportunity for Elk to transform into one of the ASX's leading oil companies and operators by reserves, production and cash flow.*

*Elk is excited by the opportunities for its expansion. We have undertaken extensive due diligence, built a strong business case and established a seamless plan for integration, including the adoption of over 90 highly experienced Resolute staff across all areas of Aneth field operation and head office management. We are highly confident that under Elk's management, alongside the Aneth team, the field can continue to go from strength to strength."*

RBC Capital Markets is acting as Global Coordinator and Lead Manager on the Placement. Elk was advised on the Acquisition and the funding package by Miro Capital Pty Ltd and EAS Advisors LLC, acting through Odeon Capital Group, LLC, a member of FINRA/SIPC/MSRB.

**For further information, please contact:**

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**ABOUT ELK PETROLEUM**

Elk Petroleum Limited (ASX: ELK) is an oil and gas company specializing in Enhanced Oil Recovery (EOR), with assets located in one of the richest onshore oil regions of the USA, the Rocky Mountains. Elk's strategy is focused on applying proven EOR technologies to mature oil fields, which significantly de-risks the Company's strategy of finding and exploiting oil field reserves.

**COMPETENT PERSONS STATEMENT**

The reserves and resources assessment follows the guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS).

The Reserves in this announcement relating to the Aneth Oil Field and CO<sub>2</sub> EOR project, operated by Resolute Energy Corporation, is based on an independent review and audit conducted by VSO Petroleum Consultants, Inc. and fairly represents the information and supporting documentation reviewed. The review and audit was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Grant Olsen, a Director of VSO Petroleum Consultants, Inc., ("VSO") an independent petroleum advisory firm. Mr. Olsen is a Registered Professional Engineer in the State of Texas and his qualifications include a Bachelor of Science and Master of Science (both in Petroleum Engineering) from Texas A&M University. He has more than 10 years of relevant experience. Mr. Olsen is a member of the Society of Petroleum Engineers (SPE) and an Associate Member of the Society of Petroleum Evaluation Engineers. Mr. Olsen meets the requirements of Qualified Petroleum Reserve and Resource Evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this report.

The information in this ASX release or presentation that relates to Reserve estimates for the Aneth Oil Field and CO<sub>2</sub> EOR project and have been compiled and prepared by Mr. David Evans, COO and Mr. Brian Dolan, COO-USA and VP-Engineering of Elk Petroleum Inc. who are both qualified persons as defined under the ASX Listing Rule 5.11 and both have consented to the use of

the reserves figures in the form and context in which they appear in this presentation. Both Mr Evans and Mr. Dolan have relied upon and utilized the independent Reserve audits prepared by VSO and NSAI.

Mr. Evans is a full-time employee of the company. Mr. Evans earned a Bachelor of Science with Honours in Geology from the University of London, United Kingdom, a Post-Graduate Diploma, Petroleum Exploration from Oxford Brookes University, United Kingdom and a Master of Applied Science, Geology from the University of Canberra and Australian National University in Canberra, ACT. Mr. Evans has more than 30 years of relevant experience. Mr. Evans has sufficient experience that is relevant to the company's Reserves and Resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr. Evans consents to the inclusion in this presentation of the matters based on the information in the form and context in which it appears.

Mr. Dolan is a full-time employee of the company. Mr. Dolan earned a degree in Mechanical Engineering from the University of Colorado at Boulder. Mr. Dolan has more than 24 years of relevant experience. Mr. Dolan has sufficient experience that is relevant to the company's Reserves and Resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr. Dolan consents to the inclusion in this presentation of the matters based on the information in the form and context in which it appears.

The above independent Reserves and Resources assessments follows the guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS) and the reviews and audits by VSO Petroleum Consultants, Inc ("VSO") were carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines.

The VSO independent Reserve audit was prepared on a deterministic basis in accordance with U.S. Securities and Exchange Commission guidelines and standards consistent with existing U.S. oil and gas Reserve auditing and reporting standards and practice.

With respect to the Aneth Oil Field and CO<sub>2</sub> EOR Project estimates of oil Reserves reflected in this release table above, these Reserves estimates are of commercial oil sales quantities net to Elk Petroleum Limited as measured at the main export point from the Aneth Oil Field into a crude oil export pipeline connected to the Aneth Oil Field through which the Aneth Oil Field currently has been selling crude oil production.

The economic basis for this evaluation is based on VSO's independent assessment of forward oil prices. The oil prices used by VSO in preparing the Aneth Oil Field Reserve estimates are based on the NYMEX WTI oil prices and are adjusted for energy content, transportation fees and market differentials applicable to the Aneth Oil Field crude oil sales historically and are based on the NYMEX WTI oil prices before adjustment as follows:

NYMEX WTI Oil Prices	
Period Ending	Oil Price (\$/bbl)
12-31-2017	US\$49.30/bbl
12-31-2018	US\$50.70/bbl
12-31-2019	US\$50.80/bbl
12-31-2020	US\$51.00/bbl
Thereafter	US\$51.60/bbl

Operating costs used in the Reserve estimates are based on operating expense records for the Aneth Oil Field provided by the operator of the Aneth Oil Field to Elk Petroleum Limited. These costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels.