Half-year report

31 December 2017

ABN 38 112 566 499

Contents

About Elk Petroleum

Elk Petroleum Limited (ASX: ELK) is an oil and gas producer and developer with assets located in one of the richest onshore oil regions of the USA: the northern Rocky Mountains.

Listed on the ASX in 2005, Elk's strategy is focused on applying established enhanced oil recovery (EOR) technologies to mature oil fields. This strategy significantly de-risks the process of exploiting mature oil field reserves. Elk's current projects use EOR technology that involves injecting CO_2 into the reservoir at pressure and temperature conditions where the CO_2 and remaining oil become miscible with each other and act as one phase whereby previously immobile remaining oil commences to flow again and incremental oil recovery is possible at levels approaching what was obtained from the field in the primary phase of a field's development.

On the cover: The Grieve Unit Process Building showing the delivery and installation of the main production separator.

Results

Sales revenue

US$27.4 million

Increased **158%** over the previous six months period (ending 30 June 2017). There was no sales revenue for the previous corresponding HY period (ending 31 December 2016).

Production (post royalty)

972,498 boe

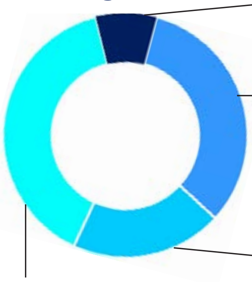
Increased **52%** over the previous six months period (ending 30 June 2017). There was no production for the previous corresponding HY period (ending 31 December 2016).

Aneth

Total unit production cost

22.87 US$/boe

Margins



Production Taxes **8%**
3.67 US$/boe

Gross margin **33%**
15.92 US$/boe

Depreciation & Amortisation **20%**
10.09 US$/boe

Production Costs **39%**
19.21 US$/boe

* Average Realised Oil Price US$48.89/boe

Cash production cost*

19.21 US$/boe

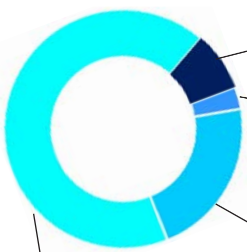
*Excluding production taxes

Madden

Total unit production cost

2.04 US$/mscf

Margins



Production Taxes **8%**
0.22 US$/mscf

Gross margin **3%**
0.08 US$/mscf

Depreciation & Amortisation **22%**
0.59 US$/mscf

Production Costs **67%**
1.82 US$/mscf

* Average Realised Gas Price 2.71 US$/mscf

Cash production cost*

1.82 US$/mscf

*Excluding production taxes

Financial update

The half-year has been marked by dramatic financial changes for the Company driven by the acquisition of the majority operated working interest in the Aneth Oil Field and CO_2 EOR Project. With the acquisition, the Company's revenue and surged to US$27.4 million of which US$17.3 million was attributable to Aneth with only 2-months of production from Aneth. This surge in revenue was driven by the completion of the Aneth acquisition and the higher realized commodity price from Aneth oil production. Revenue for the comparable half-year period for 2016 was nil.

The surge in the oil price increasing from approximately US$49.90/bbl on 15 September 2017 (date of announcement of Aneth acquisition) to US$60.46/bbl by 31 December 2017 has not only driven a surge in revenue from the Aneth production operations but has also driven an almost immediate increase in the value of the Aneth production asset and Reserves. The higher 31 December 2017 oil futures prices also had the impact of significantly increasing the externally reviewed Aneth 1P (Proved Reserves) PV10 valuation to US$264.2 million, an increase of over US$100 million from the 31 December 2017 balance sheet carrying value of US$161.1 million. This potential was in part recognised by the market in the 42% increase in the Company's share price from AU$0.066 on 30 June 2017 to AU$0.094 on 13 March 2018.

To complete the acquisition, the Company completed multiple financing transactions. With the completion of these financing transactions, the Company's enterprise value surged, approximately doubling to over US$300 million. These financing included (1) the Company undertaking a A$27.5 million entitlement offer issuing 443.5 million shares at A$0.062 per share, (2) the issuance of US$65 million preferred equity by Elk Petroleum, Inc. ("EPI"), the Company's US holding company and (3) a subsidiary of EPI securing a US$98 million senior term loan. In addition the Company also implemented a comprehensive oil price hedging program to provide downside protection against any substantial decline in oil prices through 2020 and (4) a US$20 million working capital revolver loan.

Despite the successful completion of the Aneth acquisition and the significant increase in revenues it has generated, the Company has incurred a net loss of US$45.5 million for the half-year to 31 December 2017 compared to a net loss of US$4.5 million for the previous corresponding period. This loss is largely driven by significant Aneth acquisition related items including most notably a US$30.8 million oil swap hedging liability in addition to one-off transaction and financing costs of US$4.6 million and US$4.9 million, respectively.

Net cash outflow from operating activities was US$8.0 million for the half-year, compared to US$2.6 million cash outflow for the previous corresponding period. This increase was mainly due to the Aneth transaction and finance costs.

Cash at the end of the period was US$31.8 million, with US$22.1 million held in an escrow account restricted to settling rehabilitation obligations of the Aneth field, and US$2.2 million on deposit in a debt service reserve account dedicated Grieve Term Loan interest payments. At 31 December 2017 the Group's drawn debt was US$162.2 million and the outstanding balance of preferred equity was US$65.0 million. Cash was also used to meet sweep requirements for early repayment of several financing liabilities. Financing liabilities have been reduced by US$1.25 million as at the end of 31 December 2017.

Elk's equity position (negative US$3.70 million) was impacted by the addition of an oil swap hedging liability in relation to Aneth (US$30.8 million) valued at 31 December 2017 oil futures prices which were significantly higher than oil futures prices at the time of the Aneth acquisition. The oil swap hedging was put in place to meet contractual loan protection requirements.

Present Value @ 10% Discount Rate (USD million) @ 29 December 2017 NYMEX Forward Curve		
Production Asset	Proved Developed Producing Reserves	Total 1P Proven Reserves
Aneth	220	264
Grieve*	108	108
Madden	35	35
Total	363	407

* Grieve present value is based on current VSO 2P independent reserves estimate which are expected to be reclassified as 1P Proved Developed Producing soon after commencement of production and establishment of stabilized production rate.

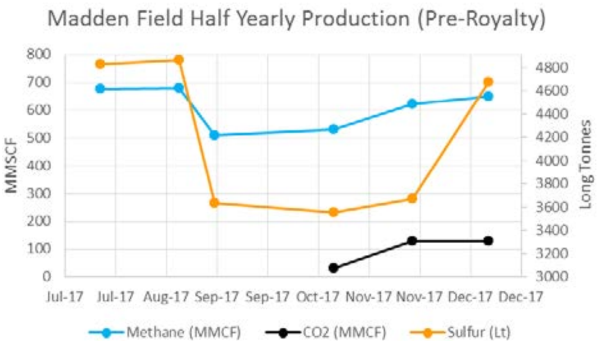
The higher 31 December 2017 oil futures prices and the resulting significant increase in the externally audited Aneth 1P (Proved Reserves) PV10 valuation to US$264.2 million (see table above) has offset the negative impact of the hedging liability multiple times. Ongoing increased oil prices will trigger a late 2018 oil-price contingency purchase price payment of up to US$10 million for the Aneth acquisition.

Although the material increased valuation of Aneth cannot be shown on the balance sheet under applicable accounting standards, the impact of the increase value of the Aneth 1P Proved Reserves materially improves the Company's ability to secure more favourable financing terms when it proceeds with planned refinancing of the outstanding Aneth and Grieve loan facilities in the latter half of CY2018. Refinancing will materially reduce the Company's forward interest and loan amortization payments and see a sustained, ongoing improvement in the Company's free cash flow to equity as well as enable the Company to provide for the funding of oil-price contingent payments associated with the Aneth acquisition.

Operations

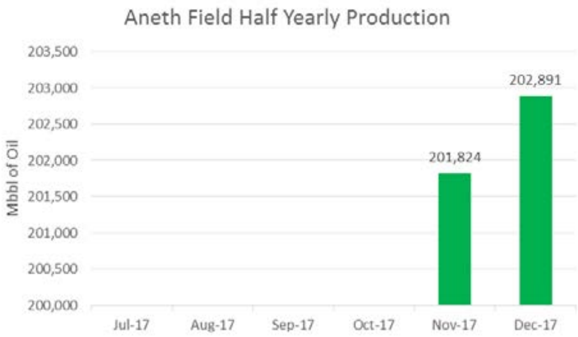
Madden Production

- CO_2 sales to Denbury recommenced in mid-October 2017
- Second quarter Sulphur prices increased eradicating losses incurred during 2017
- Net gas production ~21 MMcf/d



Aneth Production

- Oil production net to Elk commenced 1 November 2017
- Net oil production ~6500 bopd
- Aneth Unit CO_2 recycling facility ran at 100% and McElmo Creek CO_2 recycling facility at 97% plant efficiency during December Quarter.



Aneth (Elk 63% & Operator)

On 15 September Elk announced it had entered into a purchase and sale agreement to acquire an entity from Resolute Energy Corporation (NYSE: REN), which holds a 63% operating working interest in the Aneth Field, south eastern Utah.

This is one of the largest CO_2 EOR projects in the Rocky Mountains and the 86th largest onshore oil field in the US. 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 has continued the relationship with NNOGC established by Resolute with respect to the development of the Aneth Field in cooperation with the Navajo Nation.

The large amount of remaining oil in the Greater Aneth Oil Field (GAF) and the demonstrated success of EOR by CO_2 flooding to date, gave Elk the confidence (technical and commercial) to safely and efficiently take over Operatorship of the Field on the 1 January 2018.

Our focus is to safely implement additional cost-effective production optimisation programmes to create shareholder returns from this world class asset across multiple producing reservoirs for many years to come.

The acquisition price included an up-front purchase price payment of US$160 million. The purchase price also includes additional contingent oil price payments of up to US$10 million on the 1st and 2nd anniversary dates of the closing of the purchase in each of 2018 and 2019 and a 3rd payment of up to US$15 million on the 3rd anniversary of the closing of the purchase in 2020 depending on oil price performance.

Since the late 1950s, the Aneth Field has a long history of continuous oil production with 448 MMbbls cumulative production to date. The Aneth Field adds ~59MMbbls of 2P oil reserves and 6,500 bopd oil production (effective 1 November 2017) net to Elk. Development of Aneth was constrained for the past 2-3 years as Resolute focused capital and technical resources on its Texan Permian Basin acreage. As such Elk is now working towards safely doubling GAF production within 3-5 years. The acquisition timing gave Elk a significant discount to historical GAF proven reserve and production value.

Operating GAF transforms Elk into a major CO_2 EOR Producer and Operator, propelling Elk into one of the ASX's leading oil companies and operators by reserves, production & cash flow. As Operator of GAF, Elk has greater control over pace, focus and timing of cash flows. In addition, the Elk team has been complemented with the addition of an established high-quality Aneth operating, technical, commercial and management team.

During the December quarter Elk safely transitioned to GAF Operator while maintaining a business as usual case. In addition, Elk concurrently developed and finalised the 2018 capital projects plan and budget focused on safely increasing our production and reserves base. Crucially during the transition phase to the end of December 2017 the Aneth Unit CO_2 recycling facility ran at 100% and McElmo Creek CO_2 recycling facility at 97% plant efficiency. At the same time 3 workover rigs were engaged across the field on scheduled routine well interventions, and GAF oil production continued at a gross rate of ~10,500 bbl/d.

Madden/Lost Cabin Gas Plant (LCGP) (Elk 14% & Non-Operator)

Throughout the period the Operator continued an integrated approach to implementing operating cost reduction projects and scheduled processing plant turnarounds (TARs).

The Operator's strategy is to have a scheduled major turnaround for each train in the LCGP every 2 years, with a small maintenance outage every other year. TARs are primarily driven by plant cleaning requirements, repairs and modifications with the goal always being to minimize downtime and cost without compromising safety and reliability.

During September as budgeted and planned the Train 1 gas processing plant was retired, having met its operationally economic end of life. At the same time a coordinated planned maintenance outage TAR of Train 2 was undertaken. This allowed the Operator to decouple critical systems from Train 1 including the gas inlet and produced water, and steam & condensate systems from Train 2. All equipment in good condition salvaged from Train 1 has been refurbished and stored on site for future use in Train 2 which will further help with minimising long-term costs.

Because of Train 1 retirement a number of operational, safety and expense improvements were immediately recognised by Train 2. These included the improved inlet circulation area around Train 2 by utilizing Train 1 Inconel (an exotic heat and corrosive gas resistant alloy) aerial bays. Re-utilizing the Train 1 inlet separator to improve water separation and inlet circulation water quality and taking the opportunity of mothballing the Train 1 cooling water filter to have a redundant spare. Final costs for these safely executed major works were completed within approved AFE value. With Train 1 retirement, Train 2 & 3 are now running at their design capacity. Of note, during the second quarter CO_2 sales to Denbury recommenced in mid-October and Sulphur prices increased eradicating the losses incurred during 2017.

Scheduled works in the Madden Shallow Gas Field during the half year focused on the JV's ongoing commitment to the completion of planned economic uplift projects across the 'shallow wells' to maintain production. These include minor well intervention projects:

- Reducing frictional pressure losses in the wellbore by installing larger diameter tubing;
- Undertaking water/acid wash well stimulations to mitigate scaling;
- Continuing capillary string well programs to mitigate against water loading in several candidate gas wells; and
- Abandonment of four long term inactive shallow gas wells.

A pilot project aimed at improving the economic threshold of a well was completed during the period for the Maddison Deep Unit Well#8 by introducing rod pump artificial lift. As a result, the well transitioned from loading up with water to producing over 1 MMCFD and 250+ BWPD for a gross cost of US$550,000 and adding 4 BCF Gross Reserves at $0.14/mcf, a strongly positive rate of return on investment.

Grieve (Elk 49% & Non-Operator)

Above ground and subsurface activity during the half year has been impressive on the Grieve Field. This has been helped by a relatively snow free (Northern Hemisphere) winter period in this part of Wyoming.

Having achieved reservoir re-pressurisation earlier in FY18 (as a precursor for oil production start-up), during the first quarter FY18 a new oil production well, Grieve-55, was successfully drilled and completed in the southernmost portion of the field. The new well will optimise future oil production from what was determined to be a poorly swept area of the field. In tandem a well work-over and recompletion program of the remaining 7 wells in place was initiated to bring them up to specification, with a second work-over rig being added in August. The well work-over campaign was completed in January 2018; in addition, associated well flowlines into the facilities were installed. With the well intervention programme completed the JV now has optimum well production flexibility as the field is brought online. Costs for the well recompletion programme were part of the agreed Denbury fixed price turnkey project with Elk.

Above ground all offsite modular fabrication activities, undertaken at multiple US locations, were completed and delivered to the Grieve site by mid-October. At the end of December all on-site construction was nearing completion with installation of all major process equipment finalised, mechanical works 85% complete (subsequently completed in January) and electrical and instrumentation works 68% finished (subsequently completed in mid-February).

Concurrent building erection around the facilities, making them weather tight, allowed the more delicate instrument and electronics engineering works to comfortably progress during the winter season. With exposed tankage and piping undergoing heat tracing and insulation works during January.

With all wells configured for production start-up and Field facilities in the final phase of completion, pre-Field start-up activities and staged commissioning began on schedule in February 2018 and are expected to take up to 6 weeks to complete.

Grieve Pipeline (Elk 100% & Operator)

The Grieve Oil Pipeline refurbishment is complete and ready to accept oil when scheduled field production commences.

During the first quarter, Elk signed purchase orders and fabrication was completed and installation undertaken of the pig launcher, pig receiver and control skid assemblies for the pipeline. Completion of these works allowed Enbridge (the owner of the Casper Oil storage and shipping facility and Elk's point of sale) to complete the pipeline interconnection during January when actuator and shut down valves were delivered and installed. This was followed by automation and controls programming and commissioning in late-February.

Governance

The directors present their report (including the Review of Operations set out on pages 5-7), together with the financial statements on the group consisting of Elk Petroleum Limited (referred to hereafter as the 'company' or the 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were directors of Elk Petroleum Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

- Neale Taylor, Chairman
- Bradley Lingo, MD & CEO
- Russell Krause, Non-Executive Director
- Timothy Hargreaves, Non-Executive Director
- Jim Piccone, Executive Director

  (appointed 2 February 2018)

Principal activities

The company specialises in developing and operating enhanced oil recovery ("EOR") projects. During the half year the principal activities of the company consisted of the acquisition and taking on operatorship of the Aneth CO_2 EOR production project in Utah, USA and development of a CO_2 EOR project at the Grieve Oil Field and production from the Madden/Lost Cabin project, both located in Wyoming, USA. The Grieve CO_2 EOR project is operated by Denbury Onshore LLC and current operations are focused on finalising development of facilities and CO_2 and water injection to re-pressure the Grieve field prior to commencing first oil production. The Madden field is operated by Conoco Phillips and is a cash flow positive methane and CO_2 and gas processing production asset. The Aneth project is a large-scale oil production project with over 1 billion barrels oil originally in place now operated by Elk.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Significant changes in the state of affairs

There were two significant changes in the state of affairs of the Group during the financial half-year:

- Acquisition of a major operating interest in the Greater Aneth oil field and the associated CO_2 EOR Project; and
- Commitment to a number of financing agreements to facilitate the above acquisition.

Matters subsequent to the end of the financial half-year

On 2 February 2018, the company's board announced the appointment of James Piccone as an Executive Director of the company effective 2 February 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

Neale Taylor

On behalf of the directors.

Neale Taylor
Chairman

16 March 2018
Sydney

Half-year financial statements

Auditor's Independednce Declaration

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

BDO

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Australia

DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF ELK PETROLEUM LIMITED

As lead auditor for the review of Elk Petroleum Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Elk Petroleum Limited and the entities it controlled during the period.

Gareth Few

Gareth Few
Partner

BDO East Coast Partnership

Sydney, 16 March 2018

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FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

General information

The financial statements cover Elk Petroleum Limited as a group consisting of Elk Petroleum Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in United States (US) dollars, which is Elk Petroleum Limited's presentation currency. Elk Petroleum Limited's (parent entity) functional currency is Australian dollars, and the functional currency of its subsidiaries in the United States is US dollars.

Elk Petroleum Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	Principal place of business
Suite 2 Level 10 70 Philip Street Sydney NSW 2000 Australia	Exchange House Suite 101, Level 1 10 Bridge Street Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the notes to the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 16 March 2018.

Statement of Profit or Loss and Other Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 31 December 2017 US$	Restated 31 December 2016 US$
Revenue		27,424,472	13,705
Expenses			
Depreciation and amortisation expense		(5,794,012)	(32,182)
Production costs		(15,957,345)	(243,989)
Impairment of assets	9	(1,356,653)	-
Professional and corporate services	4	(1,282,468)	(659,184)
Administrative expenses		(1,231,425)	(287,714)
Directors and employees costs	4	(2,240,869)	(1,001,044)
Fair value adjustment on deferred consideration	19	(2,611,653)	-
Net loss on financial derivatives	4	(31,074,168)	(1,655,513)
Aneth transaction costs	23	(4,558,735)	-
Other income/(expenses)	4	161,734	(553,034)
Finance costs		(6,964,963)	(49,219)
Loss before income tax expense		(45,486,085)	(4,468,174)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Elk Petroleum Limited		(45,486,085)	(4,468,174)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(447,458)	294,449
Other comprehensive income for the half-year, net of tax		(447,458)	294,449
Total comprehensive income for the half-year attributable to the owners of Elk Petroleum Limited		(45,933,543)	(4,173,725)
		Cents	**Cents**
Basic earnings per share	25	(4.3)	(0.6)
Diluted earnings per share	25	(4.3)	(0.6)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 31 December 2017 US$	30 June 2017 US$
Assets			
Current assets			
Cash and cash equivalents		7,509,308	4,858,679
Trade and other receivables	5	10,727,903	2,184,084
Derivative financial instruments - oil	6	138,698	866,700
Restricted cash	7	2,235,121	7,373,265
Total current assets		20,611,030	15,282,728
Non-current assets			
Derivative financial instruments - oil	8	780,852	3,018,274
Property, plant and equipment		738,187	104,887
Oil and gas properties	9	250,133,367	93,063,504
Restricted cash	10	22,093,127	-
Other		230,428	228,648
Total non-current assets		273,975,961	96,415,313
Total assets		294,586,991	111,698,041
Liabilities			
Current liabilities			
Trade and other payables	11	7,320,487	10,794,753
Borrowings	12	23,408,606	6,736,002
Derivative financial instruments liability	13	17,899,842	-
Contingent consideration liability	14	9,380,000	-
Total current liabilities		58,008,935	17,530,755
Non-current liabilities			
Borrowings	15	141,766,948	55,845,569
Preferred stock - debt	16	60,200,000	-
Derivative financial instruments liability	17	14,196,421	3,603,337
Provisions	18	10,591,500	14,213,186
Contingent consideration liability	19	13,520,000	-
Total non-current liabilities		240,274,869	73,662,092
Total liabilities		298,283,804	91,192,847
Net (liabilities)/assets		(3,696,813)	20,505,194
Equity			
Issued capital	20	85,965,069	63,454,564
Reserves		9,778,509	11,004,936
Accumulated losses		(99,440,391)	(53,954,306)
Total (deficiency)/equity		(3,696,813)	20,505,194

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Consolidated - restated	Contributed equity US$	Foreign currency translation reserve US$	Option reserve US$	Accumulated losses US$	Total equity US$
Balance at 1 July 2016	53,208,975	7,691,399	1,863,911	(45,836,784)	16,927,501
Loss after income tax expense for the half-year	-	-	-	(4,468,174)	(4,468,174)
Other comprehensive income for the half-year, net of tax	-	1,228,751	-	(934,302)	294,449
Total comprehensive income for the half-year	-	1,228,751	-	(5,402,476)	(4,173,725)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	10,202,985	-	-	-	10,202,985
Share-based payments	-	-	37,759	-	37,759
Balance at 31 December 2016	63,411,960	8,920,150	1,901,670	(51,239,260)	22,994,520

Consolidated	Contributed equity US$	Foreign currency translation reserve US$	Option reserve US$	Accumulated losses US$	Total deficiency in equity US$
Balance at 1 July 2017	63,454,564	8,029,738	2,975,198	(53,954,306)	20,505,194
Loss after income tax expense for the half-year	-	-	-	(45,486,085)	(45,486,085)
Other comprehensive income for the half-year, net of tax	-	(447,458)	-	-	(447,458)
Total comprehensive income for the half-year	-	(447,458)	-	(45,486,085)	(45,933,543)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	21,930,103	-	-	-	21,930,103
Share-based payments	580,402	-	(778,969)	-	(198,567)
Balance at 31 December 2017	85,965,069	7,582,280	2,196,229	(99,440,391)	(3,696,813)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 31 December 2017 US$	Restated 31 December 2016 US$
Cash flows from operating activities			
Receipts from customers		17,975,000	5,331
Payments to suppliers		(22,242,178)	(2,611,557)
Interest received		12,534	7,982
Finance costs		(3,753,161)	(3,434)
Net cash used in operating activities		(8,007,805)	(2,601,678)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	23	(157,805,332)	-
Payments for acquisition of leases		(5,391,581)	(40,908)
Payments for oil and gas properties and plant and equipment		(191,261)	(1,171,925)
Payments for development		(11,899,874)	(25,419,625)
Payment for bonds and deposits		(1,779)	(45,264)
Purchase of put options		-	(4,407,165)
Net cash used in investing activities		(175,289,827)	(31,084,887)
Cash flows from financing activities			
Proceeds from issue of shares		21,512,513	7,310,846
Share issue transaction costs		(840,476)	(613,767)
Proceeds from borrowings (Revolver Loan)		7,481,775	-
Proceeds from borrowings (Senior Loan)		98,000,000	-
Proceeds from issue of preferred stock – debt		70,000,000	-
Proceeds from borrowings (Cross First - Madden)		6,000,000	-
Proceeds from borrowings (BSP loan)		3,739,135	43,517,763
Transaction costs related to loan borrowings		(5,779,000)	(3,213,000)
Transaction costs relating to preferred stock – debt		(4,800,000)	-
Repayment of borrowings		(9,513,139)	(15,502,243)
Repayment of preferred stock – debt		(5,000,000)	-
Transfer (to)/from restricted cash account		5,138,144	(10,284,566)
Net cash from financing activities		185,938,952	21,215,033
Net increase/(decrease) in cash and cash equivalents		2,641,320	(12,471,532)
Cash and cash equivalents at the beginning of the financial half-year		4,858,679	13,443,508
Effects of exchange rate changes on cash and cash equivalents		9,309	(154,728)
Cash and cash equivalents at the end of the financial half-year		7,509,308	817,248

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 1. Significant accounting policies

These financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Restatement in 31 December 2016 - Change in presentation currency
In June 2017, the Directors have elected to change its presentation currency from Australian dollars (A$) to United States dollars (US$). As a result, the comparatives for 31 December 2016 has been restated to conform with the change in the presentation currency.

The comparatives have been restated to US$ using the procedures outlined below:

a) Income Statement and Statement of Cash Flows have been translated into US$ using average foreign currency rates prevailing for the relevant period.
b) Assets and liabilities in the Statement of Financial Position have been translated into US$ at the closing foreign currency rates on the relevant balance sheet dates.
c) The equity section of the Statement of Financial Position, including foreign currency translation reserve, accumulated losses, share capital and the other reserves have been translated into US dollars using historical rates.
d) Earnings per share has also been restated to US$ to reflect the change in presentation currency.

New or amended Accounting Standards and Interpretations adopted
The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern
The Group (consisting of Elk Petroleum Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2017) incurred a loss for the half year after tax of $45,486,085 (half year to 31 December 2016: $4,468,174) and a net cash outflow from operating activities of $8,007,805 (half year to 31 December 2016: $2,601,678). Additionally, the Group had net liabilities of $3,696,813 at 31 December 2017.

These factors along with the current cash position of the Group combined with:

(i) costs associated with the Group's recent build-up and intended future maintenance of a high level technical staff capability
(ii) the likelihood of a contingent purchase price payment in November of 2018 relating to the Aneth acquisition, forecast financing costs of the Group's financial arrangements should they remain as currently structured;

give rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Despite the above matters the half year financial report has been prepared on the basis of a going concern due to the following reasons.

Operating
The operating results for the period ended 31 December 2017 reflect the increased production and revenue from the Aneth project (acquired in November 2017 - Elk operator), ongoing production and revenue from the Group's working interest in the Madden/Lost Cabin gas and CO_2 production project acquired in mid-2017. The overall group loss of $45,486,085 reflects the negative impact of financing costs, Aneth transaction costs, and oil swap hedging liability; as well as significant one-off

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 1. Significant accounting policies (continued)

start-up and transition costs to attain operating company capability. Most of these costs are expected to be non-recurring or will be materially reduced with a planned refinancing in late 2018 (see more below).

In addition to the matters on cost noted above the cash flow forecast assumes that production and cash flow from the Grieve CO_2 EOR Project will commence during the next quarter (JuneQ18). Elk's interest in Grieve is forecast to generate a positive operating cash flow for the Group, however some uncertainty arises on Grieve's production outlook and start-up date as this is based on Denbury as operator completing the project to plan to allow material cash flows to the Group in 2QCY18.

Therefore, from an operating perspective, the ability of the entity to continue as a going concern is dependent upon continued production, revenue and cash flow from the Aneth and Madden/Lost Cabin assets, reduction of costs and commencement of profitable production from the Grieve Project during the next quarter (JuneQ18). Elk intends to undertake a corporate refinancing late in CY2018 that will significantly reduce the Group's financing costs going into CY2019.

Financing

From a financing perspective, the Group is required to meet the Grieve and Aneth financing costs.

These financing costs are partially funded through available cash flow from the Aneth and Madden/Lost Cabin revenues as well as future Grieve cash flows. The Aneth transition costs and the first contingent payment to Resolute late in CY2018 (which is likely to be higher than initial modelled due to the increase in oil prices since acquisition) will generate some variability in quarterly results for CY2018. Subsequent to Grieve production commencement, Elk intends to undertake a corporate refinancing late in CY2018 with the aim of significantly reducing the Group's financing costs going into CY2019.

The Group's current financing arrangements are the result of its aggressive and highly successful acquisition efforts. In the view of the Directors the value of the Group's assets now greatly exceeds the acquisition costs of those assets and the Directors are confident that the Group can refinance as the principal basis for the refinancing of oil & gas production assets in both bank and non-bank markets in the US is the projected present value of the proven and proven developed reserves of a company's established production assets. Typically bank and non-bank lenders will provide financing on a fully conforming loan basis of between 50-65% of the projected present value of the proven and proven developed reserves and allow up to 25% of the loan amount to be made up of proved undeveloped reserves for established production assets. As of 31 December 2017, the estimated pre-financing present value of the Aneth, Madden and Grieve projects is as follows:

Present Value @ 10% Discount Rate (USD million) @ 29 December 2017 NYMEX Forward Curve		
	Reserve Case	
Production Asset	1P Proved Developed Producing	Total 1P
Aneth	220	264
Grieve*	108	108
Madden	35	35
Total	363	407
* Grieve Present Value is based on current 2P independent reserves estimate which is expected to be reclassified as 1P Proved Developed Producing soon after commencement of production and establishment of stabilized production rate.		

On the basis of the present value of the Group's proven and proven developed reserves for the Aneth, Grieve and Madden production assets, the Group believes that there is a strong basis for completing a refinancing of the Group's existing debt facilities with a conventional fully conforming corporate, multi-asset borrowing base loan facility achieving a significant reduction in the cost of debt and securing more flexible facility terms.

Elk's ability to meet its current operational and financing costs from its current revenue and cash flow is uncertain. Any shortfall in funding operational and financing costs will be funded from a combination of other available funding sources including equity placement, corporate bonds or convertible notes at a corporate level. The Group has a strong history of raising funds to meet its acquisition, development and operating activities.

Additionally, the Group has the ability to reduce costs, defer preference equity dividends and/or raise additional capital, including realising the value of some or all assets and discharge its liabilities in the normal course of business at amounts different to those stated in the financial statements.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 1. Significant accounting policies (continued)

The Directors are of the view that there is significant value of assets in excess of carrying value which would deliver cash above present needs if asset sales were required. As such the financial report has been prepared on the basis of a going concern as the Directors believe that adequate operating cash flow and funding will be available to enable the Group to pay its debts as and when they become due for a period of at least twelve months from the date of approving this report.

The financial statements do not include any adjustment relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

Note 2. Operating segments

The Group's reportable segments are based on geographical areas as follows. The oil and gas assets located in the US have been aggregated in the US reportable segment.

Australia
The parent company of the Group is based in Sydney and comprises the corporate head office function.

US
The subsidiaries of the group operate from EPI's Denver, Colorado office which is the base for the CEO, President and other senior management personnel, and the centre for administration, production, exploration, evaluation and development of oil and gas fields and ownership of pipelines. The company and its subsidiaries also have offices in Casper, Wyoming and Cortez, Colorado.

Operating segment information

Consolidated - 31 December 2017	United States US$	Australia US$	Total US$
Revenue			
Interest and other revenue	276	12,258	12,534
Sales to external customers	27,411,938	-	27,411,938
Total revenue	27,412,214	12,258	27,424,472
Total revenue above	27,412,214	12,258	27,424,472
Depreciation and amortisation	(5,774,305)	(19,707)	(5,794,012)
Other expenses	(61,658,663)	(5,457,882)	(67,116,545)
Loss before income tax expense	(40,020,754)	(5,465,331)	(45,486,085)
Income tax expense			-
Loss after income tax expense			(45,486,085)
Assets			
Segment assets	292,187,133	2,399,858	294,586,991
Total assets			294,586,991
Liabilities			
Segment liabilities	262,591,328	35,692,476	298,283,804
Total liabilities			298,283,804

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 2. Operating segments (continued)

Consolidated - 31 December 2016 - restated	United States US$	Australia US$	Total US$
Revenue			
Interest and other revenue	5,682	8,023	13,705
Total revenue	5,682	8,023	13,705
Total revenue above	5,682	8,023	13,705
Other expenses	(2,689,120)	(1,792,759)	(4,481,879)
Loss before income tax expense	(2,683,438)	(1,784,736)	(4,468,174)
Income tax expense			-
Loss after income tax expense			(4,468,174)
Consolidated - 30 June 2017			
Assets			
Segment assets	107,861,486	3,836,555	111,698,041
Total assets			111,698,041
Liabilities			
Segment liabilities	76,689,582	14,503,265	91,192,847
Total liabilities			91,192,847

Note 3. Revenue

	Consolidated	
	31 December 2017 US$	**Restated 31 December 2016 US$**
Sales revenue		
Sale of oil	17,286,866	-
Sale of gas	9,389,398	-
Sales - others	735,674	-
	27,411,938	-
Other revenue		
Interest and other revenue	12,534	13,705
Revenue	27,424,472	13,705

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 4. Expenses

	Consolidated 31 December 2017 US$	Restated 31 December 2016 US$
Loss before income tax includes the following specific expenses:		
Professional and corporate services		
Accounting, auditing and tax fees	226,005	94,894
Consultants and legal fees	990,232	519,512
Share registry, ASX and ASIC fees	66,231	44,778
	1,282,468	659,184
Director and employee costs		
Non-executive directors fees	89,597	77,818
Employee benefits	2,151,272	923,226
	2,240,869	1,001,044
Net loss on derivatives		
Loss on fair value adjustment on Grieve (see Note 6)	2,965,419	1,655,513
Loss on fair value adjustment on Aneth (see Note 13)	30,794,899	-
(Gain) on fair value adjustment on convertible notes	(2,349,852)	-
Other hedging (gain)	(336,298)	-
Total loss on derivatives	31,074,168	1,655,513
Other (income) / expenses		
Foreign exchange (gain)/loss	(185,046)	515,274
Share based payment expense	23,312	37,760
	(161,734)	553,034

Note 5. Current assets - Trade and other receivables

	Consolidated 31 December 2017 US$	30 June 2017 US$
Trade receivables	10,454,849	1,821,221
Other receivables	263,789	290,737
Other current assets	9,265	72,126
	273,054	362,863
	10,727,903	2,184,084

Terms and conditions relating to the above financial instruments:

- Trade receivables are non-interest bearing and generally on 30-60 days terms
- Other receivables are non-interest bearing and have repayment terms between 30 and 90 days
- Security deposits are interest bearing and provide security towards performance bonds provided by the consolidated entity bank to state governmental agencies against environmental obligations

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 6. Current assets - Derivative financial instruments - oil

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Derivative financial instruments - oil (Grieve)	138,698	866,700

During FY2017, the Company implemented an oil price hedging program to underwrite a strong oil price going forward for the Grieve Project. Under this program the Company purchased put options at US$45/bbl for 75% of its share of forecast oil production from the Grieve Project during the calendar year 2018 and 2019. The put options provide the Company with a US$45/bbl floor price for the hedged volumes without capping the oil price the Company may actually receive if oil prices are higher than US$45/bbl.

During the period, as a result of the derivatives financial instruments being marked-to-market at the reporting period end, a loss on fair value adjustment of US$3.0 million (see Note 4) have been recognised in the statement of profit or loss and other comprehensive income.

The fair value of derivative financial instruments have been determined by a third party expert using the following valuation techniques and assumptions:

- Methodology: Turnbull-Wakeman Average Rate Option pricing model – adjusted for skew and audited against independent market valuations.
- Expected exercise period: January 2018 to December 2019
- Volatility range: 68.6% to 23.3%
- Future oil price: $57.59

The Group's derivatives are not traded in active markets, however, all significant inputs required to fair value an instrument are observable (Level 2).

Note 7. Current assets - Restricted cash

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Restricted cash	2,235,121	7,373,265

The restricted cash is on deposit in a debt service reserve account dedicated to the completion of the Grieve Project under the Grieve Term Loan with Benefit Street Partners.

Note 8. Non-current assets - Derivative financial instruments - oil

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Derivative financial instruments- oil (Grieve)	780,852	3,018,274

Refer to Note 6 for further information on the derivative financial instruments - oil.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 9. Non-current assets - Oil and gas properties

	Consolidated	
	31 December 2017 US$	**30 June 2017 US$**
Oil properties acquired - at cost	259,951,513	95,769,950
Less: Accumulated amortisation	(8,251,493)	(2,496,446)
Less: Impairment	(1,566,653)	(210,000)
	250,133,367	93,063,504

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Oil and gas properties US$	Total US$
Balance at 1 July 2017	93,063,504	93,063,504
Additions	1,830,788	1,830,788
Additions through business combinations (note 23)	163,621,484	163,621,484
Expenditure during the half-year	11,105,223	11,105,223
Impairment of assets	(1,356,653)	(1,356,653)
Provision for closure costs	(12,375,932)	(12,375,932)
Amortisation / depletion expense	(5,755,047)	(5,755,047)
Balance at 31 December 2017	250,133,367	250,133,367

Additions above relate to acquisitions of leases and equipment costs attributed to the project during the period. Expenditure includes field/well development costs and borrowing costs capitalised during the period.

During the period, the Company deemed all Nebraska leases as non-core to Elk's continuing business. The Company maintains a zero carrying value of these leases, resulting in an impairment loss of US$1.4 million.

During the period, the Company changed its amortisation policy to be consistent with the reporting requirements of its US subsidiaries. The consolidated entity previously calculated its amortisation based on unit of production over life of the estimated Proven plus Probable ("2P") reserves, but this had been changed to Proven ("1P") reserve from 2P from 1 July onwards.

Significant account policy

Oil and gas properties
Amortisation
Amortisation is calculated using the units of production method for an asset or group of assets from the date of commencement of production. Depletion charges are calculated using the units of production method over the life of the estimated Proven (“1P”) reserves for an asset or group of assets. The calculation is based on historic costs and future development costs.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 10. Non-current assets - Restricted cash

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Restricted cash - non-current	22,093,127	-

The restricted cash of US$22.1 million is restricted for the purpose of settling rehabilitation obligations of the Aneth Field.

Under the terms of Elk's predecessor Company's purchase of working interests in Aneth Field from ExxonMobil Corporation (the "ExxonMobil Properties") in 2006, Elk and NNOGC were required to fund an escrow account sufficient to complete abandonment, well plugging, site restoration and related obligations arising from ownership of the acquired interests. The contribution net to the Company's working interest, is included in "restricted cash" in the consolidated statement of financial position at 31 December 2017. The Company is required to make additional deposits to the escrow account annually. In 2018, Elk must fund approximately US$0.7 million. In years after 2018, the Company must fund additional payments averaging approximately US$0.8 million per year until 2031. Total contributions from the date of acquisition through 2031 will aggregate US$34.4 million. Annual interest earned in the escrow account, if any, becomes part of the balance and reduces the payment amount required for funding the escrow account each year.

Note 11. Current liabilities - Trade and other payables

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Trade payables	5,925,140	3,865,148
Accruals and other liabilities	1,395,347	6,929,605
	7,320,487	10,794,753

Trade payables are non-interest bearing and generally on 30 to 60 day terms.

Note 12. Current liabilities - Borrowings

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Borrowings - Revolver Loan (1)	7,481,775	-
Borrowings - Benefit Street Partners	9,172,000	6,732,300
Borrowings - Senior Loan	6,750,000	-
Lease liability	4,831	3,702
	23,408,606	6,736,002

Unless stated otherwise, the above loans are stated at amortised cost.

Note 12. Current liabilities - Borrowings (continued)

(1) Revolver Loan
During the period, Elk Petroleum Aneth (a wholly owned subsidiary) signed for a senior revolver loan with CrossFirst Bank for US$20 million. The terms of the loan are as follows:

- Maturity date on 6 November 2021
- First priority mortgage lien over Aneth assets
- Interest is based on WSJ published prime rate on corporate loans plus applicable margin of 0.5%
- Hedging of at least 80% of reasonably anticipated PDP reserves volumes for rolling 36 months period following each March 31st and September 30th

For further information on the other borrowings and the security arrangement, refer to Note 15.

Note 13. Current liabilities - Derivative financial instruments liability

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Derivative financial instruments liability - current (Aneth)	17,899,842	-

During the period, the Company implemented an oil price hedging program to underwrite oil price going forward for the Aneth Project. Under this program the Elk Petroleum Aneth entered into Oil price swaps at US$47.45/bbl for 27% of its share of forecast oil production from the Aneth Project during the calendar year 2018 and at US$50.05/bbl for 53% of its share of forecast oil production from the Aneth Project during calendar years 2018 to 2020.

During the period, as a result of the derivatives financial instruments being marked-to-market at the reporting period end, a loss on fair value adjustment of US$30.8 million (see Note 4) have been recognised in the statement of profit or loss and other comprehensive income.

The fair value of derivative financial instruments have been determined by a third party expert using the following valuation techniques and assumptions:

- Methodology: Standard swap Marked to Market calculation of discounted cash flows audited against independent market valuations.
- Expected exercise period: January 2018 to December 2020
- Future oil price: $56.24

The Group's derivatives are not traded in active markets, however, all significant inputs required to fair value an instrument are observable (Level 2).

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 14. Current liabilities - Contingent consideration liability

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Contingent consideration liability - current	9,380,000	-

Refer to Note 19 and Note 23 for details on the deferred consideration.

Significant accounting policy

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Note 15. Non-current liabilities - Borrowings

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Borrowings - Benefit Street Partners (1)	46,024,304	45,689,888
Borrowings - Convertible Loans (2)	10,571,430	10,144,791
Borrowings - Senior Loan (3)	85,162,709	-
Lease liability	8,505	10,890
	141,766,948	55,845,569

(1) Borrowings - Benefit Street Partners

During FY2017, the Company entered into a three year US$58 million senior term loan facility with Benefit Street Partners for the Grieve Project JV restructure.

The interest rate is based on fixed spreads over LIBOR floating rate and the principal is repayable monthly once production commences. Funds under the Term Loan facility with BSP are used to fund the US$55 million in field development expenditures committed to by Elk as part of the Grieve JV restructure, minor upgrades to Elk's 100% owned Grieve oil pipeline and associated costs. The total amount drawn as at 31 December 2017 is US$58.0 million.

(2) Borrowings - Convertible Notes

During FY2017, US$14.4 million convertible notes were issued by the Company in 2 tranches to finance the acquisition of Madden Gas Field and Loss Cabin Gas Plant. The key terms include:

- Loan term to 31 March 2020
- 11% annual interest payable semi annually
- Convertible to Elk shares at A$0.103 per share at fixed AUD/USD exchange rate of 0.76
- Rolling conversion optionality as follows:
  - i. 1/3 of loan amount on first anniversary
  - ii. 1/2 of the remaining loan amount on second anniversary
  - iii. Balance of loan amount on third anniversary
  - iv. Borrower option to pay out loan amount at any time with payout penalties (being a 20% premium of the loan balance repaid payable by Elk) applying in first 18 months

Notes to the Financial Statements

Note 15. Non-current liabilities - Borrowings (continued)

No notes had been converted at 31 December 2017. On conversion the holder may elect to settle the convertible notes in cash or ordinary shares in the parent entity. The maximum number of shares that could be issued on conversion is 183,796,638 ordinary shares in the parent entity.

(3) Senior Debt

During the period, the Company secured a US$98 million senior debt facility with HPS Investments Partners, LLC, Riverstone Credit Partners, L.P. and AB Energy Opportunity Fund, L.P. Under the term loan, the funds were used to a 100% held subsidiary (Resolute Aneth, LLC), from Resolute Energy Corporation, which holds ~63% working interest in the Greater Aneth Field. The term of the debt are as follows:

- Loan term to 30 September 2021, with quarterly instalments commencing from 31 December 2017
- Interest rate based on greater of Prime Rate, Federal Funds Effective Rate + 0.5% and Adjusted LIBO Rate + 1.0%, plus 8.0% margin
- Interest payable every quarter
- Hedging of at least 80% of reasonably anticipated PDP reserves volumes for rolling 36 months period following each March 31st and September 30th
- Option to pay equity interests up to $6 million per calendar year provided no default

The total amount drawn as at 31 December 2017 is US$96.75 million.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Borrowings - Revolver Loan	7,481,775	-
Borrowings - Benefit Street Partners	46,024,304	52,422,188
Borrowings - Convertible Loans	10,571,430	10,144,791
Lease liability	13,336	14,592
Borrowings - Senior Loan	91,912,709	-
	156,003,554	62,581,571

Assets pledged as security
The borrowings secured by first mortgages over the consolidated entity's assets.

Note 16. Non-current liabilities - Preferred stock - debt

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Preferred Stock - Debt	60,200,000	-

On 6 November 2017, as part of the financing for the Aneth assets acquisition, Elk Petroleum Inc. (EPI), a wholly owned subsidiary of ELK Petroleum Limited, issued 25,000 Series A preferred stocks at US$1,000 per share and 40,000 Series B preferred stocks at US$1,000 per share.

Details of Series A preferred stock are as follows:

- Overriding Royalty Interest (ORRI) of:
    i. 5% of 8/8ths of the Company’s interest in Madden; and

Note 16. Non-current liabilities - Preferred stock - debt (continued)

- ii. 5% of 8/8ths of the Company's interest in Grieve
- Dividend of 15% p.a. paid quarterly (whereby 20% of dividend due (3%) can be paid in kind by issuing further Preferred Stock)
- Redemption at option of the holder at the following term:
  - If EPI IPO's in US, Series A holder to receive redemption amount of Liquidation Payment Amount x 1.18 paid (at Holder's election) as either:
    - i. Cash, or
    - ii. Shares of Common Stock at 80% IPO Price.
  - If Change of Control of Company occurs, holders of Series A has right to require redemption at 1.18 x Liquidation Payment Amount
- Redemption at option of EPI at the following term:
  - EPI has right to redeem Series A in cash at 1.2 x Liquidation Payment Amount

Details of Series B preferred stock are as follows:

- Net Profits Overriding Royalty Interest (NPI):
  - i. 100% Madden Net Profit Overriding Royalty Interest (NPI) until Series B has been re-paid
  - ii. After Series B has been re-paid, an NPI of 25%
  - iii. If Series B had been syndicated prior to 6 December 2017, the Madden NPI would have been reduced to 25%
- Dividend of 15% p.a. paid quarterly (whereby 20% of dividend due (3%) can be paid in kind by issuing further Preferred Stock)
- Redemption at option of the holder at the following term:
  - If EPI IPO's in US, Series B holder to receive redemption amount of Liquidation Payment Amount x 1.18 paid (at Holder's election) as either:
    - i. Cash, or
    - ii. Shares of Common Stock at 80% IPO Price.
  - If Change of Control of EPI occurs, holders of Series B has right to require redemption at 1.18 x Liquidation Payment Amount
- Redemption at option of EPI at the following term:
  - EPI has right to redeem Series A in cash at 1.2 x Liquidation Payment Amount

The preferred stock - debt includes transaction costs of US$4.8 million. The dividends for the purposes of the financial statements are treated as an interest cost / financing costs on the basis the preferred stocks are classified as a debt instrument.

Significant accounting policy

<u>Preferred stock - debt</u>
The preferred stock is accounted for as a liability based on term of the contract.

On issuance of the preferred stock, the fair value of the liability is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption.

The carrying amount of the conversion option is not remeasured in subsequent years.

Notes to the Financial Statements

Note 17. Non-current liabilities - Derivative financial instruments liability

	Consolidated	
	31 December 2017 US$	**30 June 2017 US$**
Derivative financial instruments liability - non-current (Aneth) (1)	12,895,057	-
Derivative financial derivatives - convertible notes (2)	1,301,364	3,603,337
	14,196,421	3,603,337

(1) Derivative financial instruments liability - non-current (Aneth)

Refer to Note 13 for further information on the Derivative financial instruments liability - current (Aneth)

(2) Derivative financial derivatives - convertible notes

The fair value of the financial derivatives of US$1.3 million represents the embedded derivative component within the secured convertible note at the balance date. A gain of US$2.3 million has been recognised in the profit or loss during the period as a result of the change in fair value.

The fair value of the financial derivative was determined using a Monte Carlo model.

Note 18. Non-current liabilities - Provisions

	Consolidated	
	31 December 2017 US$	**30 June 2017 US$**
Provision for rehabilitation	10,591,500	14,213,186

Rehabilitation
A provision for rehabilitation is recognised in relation to the exploration and production activities for costs associated with the rehabilitation of the various sites. Estimates of the rehabilitation obligations are based on anticipated technology and legal requirements and future costs. In determining the rehabilitation provision the entity has assumed no significant changes will occur in the relevant Federal and State legislation to rehabilitation in the future.

During the period Elk revised its estimate on the discount rate used to calculate the provision for rehabilitation based on updated available information and to more correctly reflect the risks related to the rehabilitation provisions and the related oil and gas assets. The revised estimate has reduced both oil and gas properties and the provision for rehabilitation by US$11.8 million in the current period. Additionally, the change in estimate will also have an impact on the amount unwound in future periods which is dependent on the life of the oil and gas assets and their consumption.

Movements in provisions
Movements in each class of provision during the current financial half-year, other than employee benefits, are set out below:

Consolidated - 31 December 2017	Rehabilitation costs US$
Carrying amount at the start of the half-year	14,213,186
Additions through business combinations (note 23)	8,480,283
Unwinding of discount	(273,935)
Revision of decommissioning obligations	(11,828,034)
Carrying amount at the end of the half-year	10,591,500

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 19. Non-current liabilities - Contingent consideration liability

	Consolidated	
	31 December 2017 US$	30 June 2017 US$
Contingent consideration liability - non-current	13,520,000	-

As part of the purchase and sale agreement to acquire Resolute Aneth, LLC, it was agreed that Elk would pay a contingent consideration in the form of additional cash payments, subject to the West Texas Intermediate (WTI) crude oil closing spot price over the three years following the date of acquisition. The movement in fair value adjustment on deferred consideration during the half year period was US$2.6 million. Refer to Note 23 for further details.

Note 20. Equity - Issued capital

	Consolidated			
	31 December 2017 Shares	30 June 2017 Shares	31 December 2017 US$	30 June 2017 US$
Ordinary shares - fully paid	1,342,422,763	854,703,116	85,965,069	63,454,564

Movements in ordinary share capital

Details	Date	Shares	Issue price	US$
Balance	1 July 2017	854,703,116		63,454,564
Retention shares issued to director	17 July 2017	2,000,000	US$0.05	95,306
Shares placement	20 September 2017	63,338,066	US$0.05	3,152,956
Shares placement	21 September 2017	131,199,763	US$0.05	6,478,224
Shares placement	26 September 2017	747,300	US$0.05	36,779
Shares placement	1 November 2017	80,520,799	US$0.05	3,823,595
Shares placement	2 November 2017	154,709,827	US$0.05	7,400,235
Placement of employees shares	10 November 2017	9,913,194	US$0.05	485,096
Shares placement	10 November 2017	13,032,633	US$0.05	620,723
Shares issued to supplier	16 November 2017	32,258,065	US$0.05	1,518,800
Share issue costs		-		(1,101,209)
Balance	31 December 2017	1,342,422,763		85,965,069

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 21. Equity - Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Note 22. Commitments

	Consolidated	
	31 December 2017 US$	**30 June 2017 US$**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	234,965	128,800
One to five years	33,953	65,041
	268,918	193,841
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	4,831	3,702
One to five years	8,505	10,890
Total commitment	13,336	14,592
Less: Future finance charges	-	-
Net commitment recognised as liabilities	13,336	14,592
Representing:		
Lease liability - current (note 12)	4,831	3,702
Lease liability - non-current (note 15)	8,505	10,890
	13,336	14,592

The operating lease commitments relate to rental of offices and office equipment.

CO_2 Take-or-Pay Agreements
As of 31 December 2017, Elk was party to a take-or-pay purchase agreement with Kinder Morgan CO_2 Company L.P., under which Elk was committed to buy specified volumes of CO_2. The purchased CO_2 is for use in Elk's enhanced tertiary recovery projects in Aneth Field. Elk was obligated to purchase a minimum daily volume of CO_2 or pay for any deficiencies at the price in effect when delivery was to have occurred. The ultimate CO_2 volumes planned for use on the enhanced recovery projects exceed the minimum daily volumes provided in these take-or-pay purchase agreements.

Future minimum CO_2 purchase commitments as of 31 December 2017, based on prices and volumes in effect at 31 December 2017, were US$5.5 million.

Note 23. Business combinations

Resolute Aneth, LLC Acquisition
Elk announced on 15 September 2017 that it entered into a purchase and sale agreement to acquire a 100% held subsidiary (Resolute Aneth, LLC), from Resolute Energy Corporation, which holds ~63% working interest in the Greater Aneth Field for US$160 million plus future contingent consideration of up to US$35 million depending on oil price performance.

As part of the purchase and sale agreement to acquire Resolute Aneth, LLC, it was agreed that Elk would pay contingent consideration in the form of additional cash payments, subject to the West Texas Intermediate (WTI) crude oil closing spot price over the three years following the date of acquisition. Details of each of the three contingent payments are provided below.

- First Contingent Payment - During the 12 months following the acquisition date, US$40,000 for each week day that the WTI price is greater than US$52.50 up to a maximum amount of US$10 million.

- Second Contingent Payment – During the 12 months commencing on the first anniversary of the acquisition date, US$50,000 for each week day that the WTI price is greater than US$55.00 up to a maximum amount of US$10 million.

- Third Contingent Payment – During the 12 months commencing on the second anniversary of the acquisition date, US$60,000 for each week day that the WTI price is greater than US$60.00 up to a maximum amount of US$15 million.

The Aneth Oil Field in South Eastern Utah is ranked the 86th largest oil field in the US by proven reserves and one of the largest CO2 EOR projects in the Rocky Mountains with a 30-year operating history and ~450 million barrels cumulative production to date. The acquisition will transform Elk into a major oil and gas producer and operator.

The acquisition was funded via placement of ordinary shares in Elk Petroleum Limited, US$98 million senior term loan in Elk Petroleum Aneth, LLC from HPS Investments Partners, LLC., Riverstone Credit Partners, L.P. and AB Energy Opportunity Fund, L.P and US$65 million of proceeds from preferred stock issued by Elk Petroleum, Inc. to AB Energy Opportunity and other parties. Further Elk Petroleum Aneth, LLC put in place a US$20 million revolving facility with Cross First Bank in order to provide working capital support for its new Aneth operations. Elk gained control of Resolute Aneth, LLC on 1 November 2017.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 23. Business combinations (continued)

Details of the acquisition are as follows:

	Fair value US$
Plant and equipment	481,004
Oil and gas properties	163,621,484
Restricted cash	22,093,127
Rehabilitation costs - non-current	(8,480,283)
Net assets acquired	177,715,332
Goodwill	-
Acquisition-date fair value of the total consideration transferred	177,715,332
Representing:	
Cash paid or payable to vendor	160,000,000
Contingent consideration	19,910,000
Purchase price adjustments on settlement	(2,194,668)
	177,715,332
Acquisition costs expensed to profit or loss	4,558,735
Cash used to acquire business, net of cash acquired:	
Cash paid	157,805,332

As at the acquisition date, the fair value of the contingent consideration liability was estimated to be US$19.9 million. The fair value was determined using the Monte Carlo Simulation method and classified within Level 2 of the fair value hierarchy. Significant inputs used to measure the fair value of the contingent consideration are provided below.

- Term: During between the valuation date and each respective week day for which WTI Price is simulated
- Spot price: Closing WTI Price of US$57.34 on the valuation date
- Risk free rate: One, two and three-year rates of 1.46%, 1.61% and 1.74% for the first, second and third contingent payments respectively
- Volatility: 23%, 28%, and 30% for the first, second and third contingent payments respectively

The initial accounting for the acquisition of Resolute Aneth, LLC has only been provisionally determined at the end of the reporting period.

In the half year to 31 December 2017, Resolute Aneth, LLC contributed US$17.4 million to group revenues and US$4.7 million in losses to consolidated loss before tax. If the acquisition had occurred on 1 July 2017, management estimates that the contribution from Resolute Aneth, LLC for the six months to 31 December 2017 would have been revenue of US$46.5 million and a profit before tax of US$7.3 million.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Note 23. Business combinations (continued)

Significant Accounting Policy

Business combinations
A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree. Deferred consideration payable is measured at its acquisition-date fair value. Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. At each reporting date subsequent to the acquisition, contingent consideration payable is measured at its fair value with any changes in the fair value recognised in profit or loss unless the contingent consideration is classified as equity, in which case the contingent consideration is carried at its acquisition-date fair value.

Goodwill is recognised initially at the excess of: (a) the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition); over (b) the net fair value of the identifiable assets acquired and liabilities assumed.

If the net fair value of the acquirer's interest in the identifiable assets acquired and liabilities assumed is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest, the difference is immediately recognised as a gain in profit or loss.

Acquisition related costs are expensed as incurred.

Note 24. Events after the reporting period

On 2 February 2018, the group's board announced the appointment of James Piccone as an Executive Director of the Company effective 2 February 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Note 25. Earnings per share

	Consolidated	
	31 December 2017 US$	Restated 31 December 2016 US$
Loss after income tax attributable to the owners of Elk Petroleum Limited	(45,486,085)	(4,468,174)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,056,801,469	786,297,715
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,056,801,469	786,297,715
	Cents	**Cents**
Basic earnings per share	(4.3)	(0.6)
Diluted earnings per share	(4.3)	(0.6)

Director's Declaration

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Neale Taylor
Chairman

16 March 2018
Sydney

Independent Auditor's Review Report
to the members of Elk Petroleum Limited

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

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Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Elk Petroleum Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Elk Petroleum Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Independent Auditor's Review Report
to the members of Elk Petroleum Limited

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO

Gareth Few

Gareth Few
Partner/Director

Sydney, 16 March 2018

Corporate Directory

Directors	Neale Taylor (Chairman) Bradley Lingo (Managing Director and Chief Executive Officer) Russell Krause (Non-Executive Director) Tim Hargreaves (Non-Executive Director) Jim Piccone (Executive Director, appointed 2 February 2018)
Company secretary	David Franks and Andrew Bursill
Registered office	Suite 2 Level 10 70 Philip Street Sydney NSW 2001 Telephone: +61 2 9299 9690 Facsimile: +61 2 9251 7455
Principal place of business	Exchange House Suite 101, Level 1 10 Bridge Street Sydney NSW 2000 Telephone: + 61 2 9093 5400
Share register	Computershare Investor Services Pty Ltd Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Telephone: +61 3 9415 5000 Facsimile: +61 3 9473 2500
Auditor	BDO East Coast Partnership Level 11, 1 Margaret Street Sydney NSW 2000
Solicitors	Norton Rose Fulbright Level 18, Grosvenor Place 225 George Street Sydney NSW 2000
Stock exchange listing	Elk Petroleum Ltd shares are listed on the Australian Securities Exchange (ASX code: ELK)
Website	www.elkpet.com
Corporate Governance Statement	www.elkpet.com/governance-and-compliance

For further information please contact:

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elk petroleum