elk petroleum

ABN 38 112 566 499

2018
ANNUAL FINANCIAL REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Elk Petroleum Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

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

Neale Taylor, Chairman
Bradley Lingo, Managing Director
Russell Krause, Non-Executive Director
Tim Hargreaves, Non-Executive Director
Jim Piccone , Executive Director (appointed 2 February 2018)

Principal activities

The company specialises in developing and production of enhanced oil recovery ("EOR") projects. During the year the principal activities of the company consisted of the acquisition and operation of the Greater Aneth field in Utah, completion and commissioning of a CO_2 EOR project at the Grieve oil field and ongoing production from the Madden/Lost Cabin field, both located in Wyoming, USA. The Grieve CO_2 EOR project is operated by Denbury Onshore LLC and current operations are focused on first oil production. The Madden/Lost Cabin field is operated by Conoco Phillips and is a methane, Sulphur and CO_2 processing production asset. In September 2017 Elk entered into a purchase and sale agreement with Resolute Energy Corporation (NYSE: REN) to acquire a ~63% operating working interest in the Greater Aneth Oil Field, in southern Utah and took over operatorship on 1st January 2018. The Aneth project delivered ~36.8MMbbls of 1P oil reserves and 5,400 bopd oil production at 30 June 2018 net to ELK.

Overall 2017-2018 Financial Result

FY2018 was a transformational year for the Company. Elk's acquisition of a 63% operated working interest in the Greater Aneth field resulted in increased FY18 oil production to 2.63 mmboe through the end of the financial year – an increase of over 2.25 mmboe over FYE2017 production. This strong growth in production came entirely from the Aneth Field which only contributed to FY2018 production starting in November 2017. Flowing from this dramatic increase in oil production, the impact on the Company's financial performance was equally strong. The Company generated $95.1 million in total revenues and delivered a Gross Profit of $39.2 million and EBITDAX of $13.5 million including the full cost of all Company G&A and overhead expenses. Overall, taking into account financing interest expense and realised oil hedging expense, Elk's adjusted after-tax profit/loss in the year was a small loss of $572,066 after adjustment for non-cash and non-recurring items (non-IFRS unaudited).

The Aneth acquisition also drove a dramatic increase in the Company's Proved Reserves. As of 30 June 2018, the Aneth acquisition contributed 23.3 mmbbls Proved Developed Producing (PDP) Reserves and 36.9 mmboe Total Proved Reserves (1P) - increasing Elk's overall corporate Proved and Probable (2P) reserves to 52.8 mmboe at 30 June 2018.

The Aneth acquisition has also been accompanied by a significant increase in the oil price since the date of acquisition on 6 November 2018 (US Mountain Time). This increase in the oil price has driven a significant increase in the PV-10 value of the Aneth Reserves. The table below summarises Elk's independently audited Total Proved Reserves and corporate PDP PV10 for the Aneth Oil Field as at 30 June 2018 (unless otherwise indicated):

Aneth 1P Reserves Oil Price Cases @ 30 Jun 2018	1P Reserves (MMbbls)	PV-10 (US$ million)
Aneth acquisition date (NYMEX Strip price 6 Nov 17)	31.2	160.0
SEC price (30 Jun 2018 pricing)	37.3	336.7
NYMEX Strip price (31 Aug 2018 pricing)	36.8	354.5
US$75/bbl flat price	39.9	596.3

The Directors have provided these highlights of the overall operational impact of the Aneth Oil Field acquisition and the resulting financial results on an adjusted basis (non-IFRS unaudited) to provide some important context on the quality of the Aneth acquisition and the strength it brings to the Company in terms of operational and financial performance going forward. These adjustments have been provided to assist shareholders in interpreting the underlying performance of the Company in light of this transformative acquisition from an on-going cash flow generating perspective as distinguished from the statutory financial accounts below that include significant one-off, non-recurring and non-cash expense items associated with the acquisition and financing of the Aneth acquisition. The most significant item affecting the results in the statutory financial accounts associated with the Aneth acquisition is the accounting for the non-cash unrealised expense associated with the oil price hedging implemented in connection with the acquisition which accounts for approximately 60% of the statutory loss detailed in the accounts below. For additional commentary on the statutory financial accounts and the balance sheet please see the Financial Review and associated notes below.

Operations Review

Aneth

On 15 September 2017, Elk (the "Company") announced that it had entered into a purchase and sale agreement with Resolute Energy Corporation (NYSE: REN) to acquire a ~63% operating working interest in the Greater Aneth Oil Field ("Aneth"), the 86th largest oil field in the United States by proved reserves as ranked by the US Energy Information Administration. Located in south eastern Utah it is one of the largest CO_2 EOR projects in the Rocky Mountains. 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 a positive and cooperative working relationship with NNOGC and the Navajo Nation concerning the development of the Aneth Field.

The acquisition price included an up-front purchase price payment of $160 million. The purchase price also contained additional contingent oil price payments of up to $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 $15 million on the third anniversary of the closing of the purchase in 2020 depending on oil price performance. Financial close of the acquisition was achieved on 6 November 2017, with Elk assuming full day-to-day Operatorship on the 1st January 2018.

The Greater Aneth Oil Field was discovered in 1956 and is the largest oil field in the Paradox Basin and produces oil and small amounts of gas from carbonate reservoir rocks in an extensive stratigraphic trap from the Desert Creek zone of the Pennsylvanian (Carboniferous) Paradox Formation. To date the Greater Aneth Oil Field has produced over 448 million barrels of oil of the estimated 1.5 billion bbls of original oil in place("OOIP") (Utah Division of Oil, Gas and Mining, 2017a). The Aneth Field comprises three contiguous operating units: the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit. Collectively these three operating units are known as the Greater Aneth Oil Field. The large amount of remaining oil in the Greater Aneth Oil Field and the demonstrated success of EOR by CO_2 flooding to date gave Elk the confidence (technical and commercial) to take over operatorship and implement additional cost-effective production optimisation programmes. These optimisation programmes will create shareholder return for many years into the future. The oil produced from the Aneth Field is exported via the Running Horse Oil Pipeline to Western Refining 's Gallup, New Mexico refinery. The CO_2 for the Aneth Field EOR programmes is supplied to the Greater Aneth Oil Field by Kinder Morgan under long-term contract from the McElmo Dome CO_2 Field located in southwestern Colorado via a 28 mile 8-inch pipeline which is owned and operated by the Greater Aneth Joint Venture.

The Greater Aneth Field contributed 36.8 MMbbls of 1P Oil reserves and 5,400 bopd oil production net to ELK at 30 June 2018. Elk has the opportunity to double production within 3-5 years from the significant suite of high return projects in the Aneth project pipeline. The Aneth acquisition has transformed Elk into a major oil producer and Operator, propelling Elk into one of the ASX's leading oil companies and operators by reserves, production & cash flow.

The Company commenced new field development activities at the start of June 2018 with the beginning of the well-deepening project in the McElmo Creek Unit of Aneth. When completed the deepening programme expected to add 2.2 MMbbls of 1P PDP Reserves and peak additional production of approximately 1,000 bopd net to the Company. The economics of the well deepening project are both highly attractive and accretive.

In conjunction with the new field development activities on 13 June 2018, the Company secured an increase to the Aneth Term Loan Facility from its existing lenders increasing the total facility amount to $122 million from the original $98 million. This loan increase will be used to fund projects in the Aneth Stage 1 Field Development Programme. The Company's Stage 1 Aneth Development programme is aimed at delivering a significant increase in the 1P Proved Developed Producing Reserves of the Aneth Field over a 24-month period from approximately 30 MMbbls (as of 31 December 2017) to over 46 MMbbls - an increase of over 50% - and is expected to increase production net to the Company by 2,000 bopd to over 7,500 bopd by late CY2019. The Company considers each of these projects as low risk Proved Developed Non-Producing or Proved Undeveloped. Implementation of these developments are expected to increase the net present value of the Aneth Oil Field by approximately $120 million increasing the total present value of the Greater Aneth Oil Field to over $400 million based on a $60 flat WTI oil price and after the impact of Aneth oil price hedging currently in place.

Grieve Project and Grieve Pipeline

The first two quarters of FY 2017-2018 were an extremely busy and productive period on the Grieve Field both above ground and in the subsurface. The piping, underground electrical and mechanical installation contractors mobilised at the site in mid-July to begin the plant and equipment hook-up process under the Fixed Price Turnkey EPC contract with Denbury. In the Subsurface the field achieved reservoir re-pressurisation the precursor required to commence oil production start-up. During the first quarter FY18 a new oil production well, Grieve-55, was successfully drilled and completed in the southernmost end of the field to optimise oil production from 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 and giving the Joint Venture optimum well production flexibility as the field is brought online and well clean up flows undertaken. The field redevelopment cost is part of the fixed price turnkey project agreement between Denbury and Elk. The Grieve CO_2 EOR Project includes 24 active wells, 10 oil production wells, 10 CO_2 or water injection wells, 3 dual purpose wells –2 injector & 1 production wells and 1 water source well.

By the end of the second quarter on-site construction and installation of major process equipment was 100% complete. The mechanical works and buildings were finished early in the third quarter. The erection of insulated buildings around facilities makes them weather tight allowing instrument and electronics engineers to comfortably complete and commission their works during early in February 2018. After a 4-week commissioning phase on the 17th April 2018 Elk announced the start-up of operations at the Grieve CO_2 EOR facilities. Denbury has advised that the production operations at Grieve are in keeping with the field start-up operations it established for its Bell Creek CO_2 EOR Field on the Wyoming-Montana border which is also a Muddy Sandstone Reservoir CO_2 EOR project. Subsequent operations have focused on two key activities – (1) a systematic clean-up of all production and injection wells across the field starting with an initial focus on testing the down dip wells and field production flow lines before moving to up dip well locations and (2) reinstatement of CO_2 injection across the field. Production clean-up operations consisted principally of water, associated gas (CO_2) and some oil. With a focus on production well clean-up across the field, stabilized oil production rates for the project had not been established by the end of the final quarter. Following year-end Denbury is focused on establishing stabilized oil production rates and oil production has commenced with oil now being recovered from the Central Processing Plant production separators and transferred to the oil sales storage tanks for transfer to the Grieve Pipeline. The Company remains confident that the focus shifting from well clean-up operations to production activities will see oil production ramp up.

Elk through its subsidiary Elk Grieve Oil Pipeline, LLC owns and operates 100% of the 32-mile-long, 8-inch diameter steel export oil pipeline that extends from the Grieve CO_2 EOR project to a receiving station at the Enbridge oil storage facility in Casper, Wyoming, our point of oil sale. Denbury has entered into an oil transportation agreement with Elk to use the pipeline to transport its share of Grieve oil to Casper, for a charge of $3/bbl (escalated) on 100% of production.

In the first quarter the pipelines integrity was confirmed with its passing of a hydrostatic pressure test. As part of the pipeline's corrosion protection programme Elk also completed a new pipe-to-soil survey to determine the level of cathodic protection over the pipeline. During the September quarter fabrication was completed on the pig launcher, pig receiver and control skid assemblies for the pipeline. These were installed and connected along with automation and controls calibrations at both ends of the 32-mile pipeline, the Grieve field and Enbridge oil storage facility at the end of the March quarter. Enbridge then performed the physical interconnection, hydro-testing, and linking automation and controls into its own facilities in early April in preparation for first oil. After year end the Grieve pipeline began receiving oil from the Grieve field. Upon completion of filling the Grieve Crude Oil Pipeline (10,950 barrels), all Grieve Field oil production will be shipped via our pipeline and oil sales will commence via Enbridge Inc.'s Express System Crude Oil Terminal and the Platte Crude Oil Pipeline facilities at Casper, Wyoming. Initial crude oil production will be sold to the Sinclair Crude Oil Refinery at Casper, Wyoming. Under the restructured JV agreements negotiated in 2016 with Denbury, Elk will receive 75% of the operating profit from the first million barrels and 65% from the second million barrels produced.

Madden Lost Cabin

The Madden/Lost Cabin asset continues to deliver significant long-life, low risk, high quality reserves & production from all three of our product sales streams, Natural Gas, Sulphur and CO_2. The beginning of FY 18 was marked by an increase in execution of approved capital projects, with a strong focus on 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 TAR for each train every 2 years, with a small maintenance outage every other year. TAR's are primarily driven by plant cleaning requirements, repairs and modifications with the goal always being to minimize duration and cost without compromising 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. 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 in minimising long-term costs.

With the Train 1 retirement, Train 2 & 3 are now running at their design capacity of 230 MMcf/day inlet and 150 MMcf/day sales. An additional 90 MMcf/day sweet gas processing capacity is available on the Madden Shallow gas field. The Lost

Cabin Gas Plant is also the second largest CO_2 supplier for EOR in the Northern Rockies and is the starting point for Denbury's Greencore CO_2 Receiving Facility and Pipeline which after a 2-year hiatus in October 2018 reinitiated CO2 (our full production stream) sales, supplying CO_2 to Denbury's Wyoming and Montana CO_2 EOR projects. Elk is now a CO_2 supplier. Also, in the second quarter Sulphur prices increased eradicating the losses incurred during CY 2017. However, this was offset by the relative decline in gas prices over FY18.

Scheduled works in the Madden Shallow Gas Field during the year focused on the Joint Venture's ongoing commitment to the completion of planned economic uplift projects across the 'shallow wells' to maintain production.

Financial Review

Elk's financial performance during the year was significantly impacted by the acquisition of the Greater Aneth project interest in November 2017.

Revenue

- The production impact of Aneth acquisition during the year contributed to a 1,835% increase in sales revenue to $94.8 million from $4.9 m in FY17.
- Sales volumes increased by 690% to 2.6 MMBOE resulting from the Aneth acquisition
- The average realised oil price for the year was $56.2/bbl (Average monthly spot price $58.61/bbl for FY18)
- Total Madden Revenue for FY18 was $19.5m of which $16m was gas

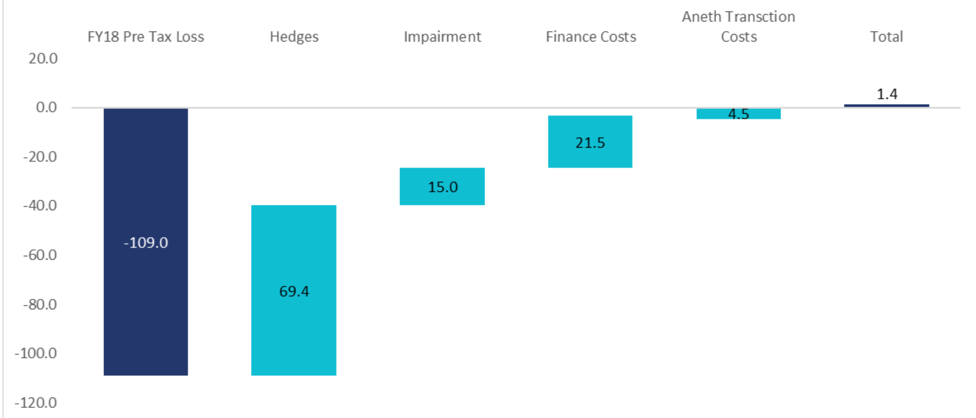
Profit and Loss

Elk incurred a Group loss of $109 million in FY18, an increased loss of 1,243% to prior year loss of $8.11 million. Key contributing factors to the Group's increased loss included hedging impairment and Madden asset impairment (both non-cash contributions), and cash costs associated with the Aneth acquisition, transition and financing and other impacts as detailed below:

- Impairment (non-cash) of Madden and Singleton assets of $15 million
- Loss on derivatives (non-cash) related to Aneth future oil price swaps of $69.4 million
- One off finance costs related to Aneth acquisition of $21.5 million
- One off Aneth acquisition and transition costs of $4.5 million

Elk's adjusted net profit (unaudited, non-IFRS) when adjusted for non-cash items and one-off transaction, transition and finance costs is $1.4 million as detailed in the attached table:

Elk FY18 adjusted net profit:



* Underlying results in this table are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. They have not been subject to audit or review by Elk's external auditors

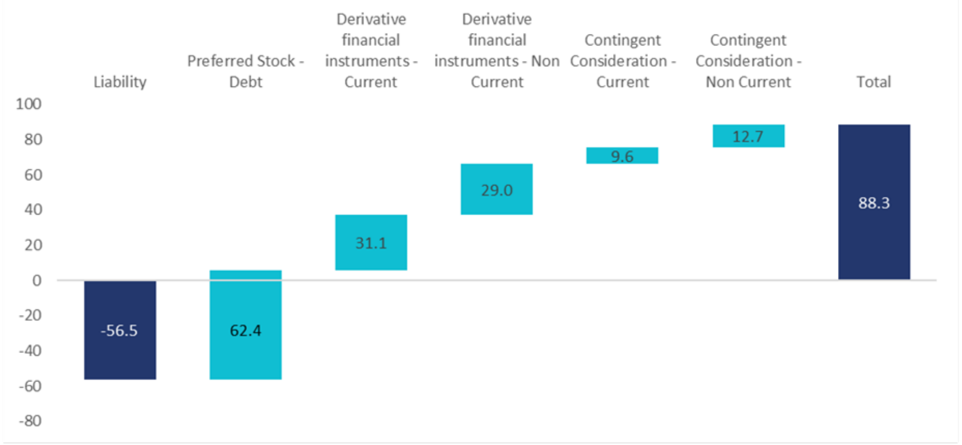
Financial Position

Elk's net assets decreased from $20.5 million to a net liability position of $56.5 million. Key contributing factors to the Group's net liabilities position result from costs and liabilities related to the Aneth transaction, transition and financing and include:

- Increased borrowings in relation to the Aneth acquisition financing of $188.8 million
- Classification of $62.4 million of US preference equity as debt under IFRS accounting standards
- $31.1 million classification of oil hedging liabilities
- Aneth contingent oil price linked acquisition consideration of $22.3million

Elk's adjusted assets (unaudited, non-IFRS) when adjusted for non-cash items and one-off transaction, transition and finance costs is $88.3 million as detailed in the attached table:

Elk FY18 adjusted assets



* Underlying results in this table are categorised as non-IFRS financial information provided to assist readers to better understand the financial performance of the underlying operating business. They have not been subject to audit or review by Elk's external auditors

Cash and cash equivalents and restricted cash at the end of the period was $58.3 million including:

- Cash on deposit of $34.9 million
- Restricted cash (Aneth escrow account) on deposit of $22.7 million
- Restricted cash (Grieve lockbox account) on deposit of $0.6 million

Material Business Risks

This section describes some of the material business risks associated with Elk. It does not purport to list every risk that may be associated with Elk's business or the industry in which it operates, and the occurrence or consequences of some of the risks described in this section are partially or completely outside of the control of Elk, its Directors and the senior management team.

The selection of risks included in this section has been based on an assessment of the most significant areas of uncertainty for Elk's business and operations that could have an adverse impact on the achievement of the financial performance and outcomes for the business. There is no guarantee or assurance that the importance of different risks will not change or other risks will not emerge.

Elk is exposed to risks in relation to the Company's existing and proposed business operations. These include, without limitation:

1. Grieve Project operation

Denbury is the operator of the Grieve JV. As a result, the Company is exposed to various risks arising from Denbury's control of the operation of the Grieve Project. If operation problems occur or other problems arise in the relation to the Grieve JV, the Company may not be able to resolve those problems and may be exposed to negative financial and environmental outcomes.

Elk has JV voting control over many aspects of Grieve operation and can apply its corporate experience to guide the operation of Grieve. Elk has management systems, insurance policies and corporate structures in place to address potential negative financial and environmental outcomes Grieve project development.

2. Company operations

The operations of the Company may be affected by various factors, including failure to achieve predicted well production flow rates, operational and technical difficulties encountered in production, difficulties in gaining government or regulatory approvals, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated reservoir problems which may affect field production performance, adverse weather conditions, meteorological events, industrial and environmental accidents, force majeure events by suppliers, product processes and pipeline transporters, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, commodities, plant and equipment. Any of these outcomes could increase Elk’s costs or cause other adverse effects to Elk’s financial position.

Elk’s management systems, experienced staff, selection of experienced consultants and contractors, company risk management system and insurance policies are in place to minimise risks and outcomes of factors affecting company operations and resulting financial performance.

3. Petroleum Reserves and Petroleum Resources

Estimates of Petroleum Reserves and Petroleum Resources are expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated, may change significantly when new information or techniques become available. In addition, by their nature, Petroleum Reserves and Petroleum Resources estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change.

Elk uses experienced external engineers from third party petroleum engineering consultants to review its Petroleum Reserves and Petroleum Resources, supervised by Elk senior personnel who have 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.

4. Oil and gas price volatility and exchange rate

The revenue the company may derive through the sale of oil and gas exposes the potential income of the Company to oil and gas prices and exchange rate risks. Oil and gas prices fluctuate and are affected by many factors beyond the control of the Company. Such factors include international and US domestic supply and demand fluctuations, technological advancements, forward selling activities and other macro-economic factors.

Elk actively hedges oil and gas prices related to current and forecast production from its assets to mitigate oil and gas price risk.

The price of oil and gas sold by Elk is denominated in United States dollars exposing the Company to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

Elk’s cash inflows and outflows are a mix of USD and AUD. Due to the offsetting nature of Elk’s USD and AUD revenue and expenses, the company has not deemed it necessary to hedge currency. Elk’s hydrocarbon and currency hedging status is under continual review.

5. Contracts risk

The Company currently has contracting arrangements with third party contractors for petroleum operations in the United States of America (USA), exposing the company to the risk of:

a) financial failure or default of the contractor or any other third party to a contract for which the Company is a party, or

b) insolvency or other managerial failure by any of the operators and contractors used by the Company in its activities, or

c) insolvency or other managerial failure by any of the other service providers used by the Company or operators for any activity; or

d) mechanical, other operating or commercial failure by contractors or of the contractors’ equipment or services, which are used by or provided to the Company.

Elk seeks legal advice prior to entering new contracts and for ongoing management of contracts, and Elk's experienced management team oversees establishment of new contracts and management of ongoing contracts to minimise contract risks and potential associated financial risks. Elk has insurance policies in place to mitigate negative financial outcomes that may result from these contract risks.

6. Environmental

The operations and proposed activities of the Company are subject to laws and regulations concerning the environment applicable in the jurisdiction of those activities. As with most development or production operations, the Company's activities will have an impact on the environment.

Elk as Operator of the Aneth Oil Field and the Grieve Oil pipeline conducts its activities to the highest standard of environmental obligation, including compliance with all State and Federal environmental laws. In addition, the Operators of Grieve and Madden have in place environmental management processes and procedures that are utilised to minimise environmental risk.

7. Sovereign

The Company's projects are in the USA and are subject to the risks associated with operating in that country. These risks may include economic, social or political instability or change, changes of laws (such as those affecting foreign ownership), government participation, taxation, working conditions, rates of exchange, exchange control, approvals and licensing, export duties, repatriation of income or return of capital, environmental protection, labour relations as well as government control over natural resources or government regulations that require the employment of local staff or contractors or require other benefits to be provided to local residents.

Elk seeks legal advice where necessary in relation to ongoing management of key sovereign risks, and Elk's experienced management team oversees management of the company's affairs to minimise these risks. Elk also has insurance policies in place to mitigate negative financial outcomes that may result from certain sovereign risks.

8. Joint venture, acquisitions or other strategic investments

The Company may make strategic investments in complementary businesses or enter into strategic partnerships or alliances with third parties to enhance its business. Such arrangements involve a wide range of risks, including in relation to the Grieve JV.

Elk seeks legal and financial advice in relation to its strategic activities, and Elk's experienced management team oversees strategic activities and utilises experienced external advisory groups to minimise these risks.

9. Status of leases and tenure

All petroleum licences associated with Elk's project interests are subject to granting and approval by relevant government bodies and ongoing compliance with licence terms and conditions. There is an ongoing potential risk to Elk's business from an unexpected change in the status of Elk's licences.

The operators of Grieve and Madden have in place management processes and standard operating procedures that are utilised to minimise licence and tenure risk.

Elk employs qualified and experienced land managers to actively manage project interests and licences to mitigate the risk of unfavourable changes in status of project interests and licenses on operated assets.

10. Insurance

Elk maintains insurance coverage limiting financial loss resulting from certain operating risks, in accordance with standard industry practice or as determined by the board. However, not all risks inherent to Elk's operations or those of its joint venture affiliates can be adequately insured economically or at all, and losses and liabilities arising from uninsured or underinsured operational events or the failure of one of its insurance providers could increase Elk's costs or cause other adverse effects to Elk's financial position.

11. Reliance on key personnel

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and key personnel such as the Directors. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these personnel cease their employment or appointment with the Company (or its group) or if the composition of the Company's board of Directors changes, potentially resulting in disruption to Elk's business and operations with resulting financial impacts.

Elk maintains competitive remuneration policies and incentive plans for its Directors and staff to incentivise due effort and commitment and maximise retention to avoid potential disruption and financial impacts resulting from personnel movements.

12. Regulatory risks

The introduction of new legislation or amendments to existing legislation by governments, developments in existing law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations (particularly in the USA), could impact adversely on the assets, operations and, ultimately, the financial performance of the Company.

Elk's seeks to maintain compliance with legislative, regulatory and contractual requirements through engagement of external legal, financial and technical advisors in relation to operation of Elk's business. Elk's management maintains awareness of the regulatory environment through general participation in the oil and gas sector, via sector related news flow from media, attendance at conferences.

Elk employs qualified and experienced land managers to to mitigate the risk of unfavourable changes in status of applicable regulations.

Significant changes in the state of affairs

There were two significant changes in the state of affairs of the group during the financial 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 year

No matter or circumstance has arisen since 30 June 2018 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.

Likely developments and expected results of operations

Information as to likely developments in the operations of the consolidated entity and expected results of those operations are disclosed in this report.

Environmental regulation

The group's operations are subject to certain laws regarding environmental matters and discharge of hazardous waste materials. The group conducts its activities in an environmentally responsible manner in accordance with all applicable laws and regulations. The directors are not aware of any breaches in relation to environmental matters.

Information on directors

Name:	Neale Taylor
Title:	Non-Executive Director and Chairman
Experience and expertise:	Dr. Taylor has extensive technical, operating and commercial experience in oil and gas exploration and production with Esso Australia, Nexus Energy, and Cambrian Oil & Gas Plc. He is a former non-executive director of Terra Gas Trader, former non-executive chairman of Tap Oil, a former managing director of Cambrian Oil & Gas Plc and director of various subsidiaries of Xtract Energy Plc. He is a member of the Society of Petroleum Engineers and a Fellow of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the audit committee, risk committee and remuneration committee.
Interests in shares:	1,525,013 shares
Interests in rights:	1,589,000 performance rights 907,000 retention rights

Name:	Bradley Lingo
Title:	Managing Director and Chief Executive Officer
Experience and expertise:	Mr. Lingo is an experienced international resource & energy executive with a proven track record of successfully building companies in the upstream and midstream oil & gas energy sectors. Mr. Lingo held previous roles in business development, new ventures, mergers and acquisitions and corporate finance with Tenneco Energy and El Paso Corporation in the US and Australia, and Senior Vice President and Head of Oil & Gas at the Commonwealth Bank of Australia. More recently Mr. Lingo was Managing Director and CEO of Drillsearch Energy Limited, where he oversaw more than an eight-fold increase in share price and market cap over a period of six years, helping build that company into one of Australia's leading onshore oil and gas producers. Mr. Lingo's skills include leadership, ability to build market confidence, financial and technical skills, organisation building, business development and funding capability, and entrepreneurship. His experience also includes equity and debt capital raising, project and transaction financing and structuring to achieve attractive financial, tax, accounting and legal treatment for complex commercial, project and financing transactions, similar to Elk's current needs.
Other current directorships:	Oilex Ltd
Former directorships (last 3 years):	Drillsearch Energy Limited, Mont Dór Petroleum Limited, Ambassador Energy Limited
Special responsibilities:	Member of the Risk committee and Remuneration committee
Interests in shares:	19,045,270 shares

Name:	Russell Krause
Title:	Non-Executive Director
Experience and expertise:	Mr. Krause has over 25 years' experience in Stockbroking and Investment Management with a primary focus on the resources sector. He has held a number of Directorships and Senior management positions with a number of Australia's leading firms, including firms with US oil and gas assets. For the past ten years he has worked on a number of North American oil and gas projects in relation to Capital Raising and Corporate Advisory.
Other current directorships:	Speciality Metals International Limited, Red Sky Energy Limited, Austex Oil Limited
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Remuneration committee and Risk committee and Chair of the Audit committee.
Interests in shares:	6742 Shares
Interests in rights:	857,000 performance rights 491,000 retention rights

Name:	Timothy Hargreaves
Title:	Non-Executive Director
Experience and expertise:	Mr. Hargreaves has over 35 years' experience in technical and managerial roles in the petroleum and minerals sectors in Asia and the Middle East for major companies including BHP, Union Texas Petroleum and Fletcher Challenge Petroleum as well as start-ups and independents. He has led successful exploration and commercialisation campaigns in Pakistan and Egypt which were dependent upon technical and commercial innovation in complex regulatory environments. Since 2009 he has been Research Director of Resources for Republic Investment Management, a Singapore based investment fund that is a major investor in Elk and has been a major participant in the rejuvenation of Elk including being the lead investor in the Convertible Loan Facility of April 2015 and a sub-underwriter of the June 2016 Entitlement Offer. He is a former Director of Skyland Petroleum Limited (ASX: SKP) and is a former Director of The Environmental Group Limited (ASX: EGL).
Other current directorships:	Panthera Resources PLC, Indo Gold Limited
Former directorships (last 3 years):	Skyland Petroleum Limited
Special responsibilities:	Chair of the Risk committee.
Interests in shares:	10,610,097 shares
Interests in rights:	857,000 performance rights 491,000 retention rights

Name:	James Piccone
Title:	Executive Director
Experience and expertise:	Mr. Piccone has 39 years of experience in the USA oil and gas industry. He has extensive experience with oil and gas financial transactions and financing, most recently as a director of Resolute Energy Corporation. As the CEO of Elk Petroleum Inc. and a non-executive director of Elk Petroleum Ltd. he oversees the Denver Colorado based US subsidiary of Elk Petroleum Ltd.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	None
Interests in rights:	None

Information with respect to the directors and executives of Elk Petroleum Limited as at the date of this report are set out at the front of the directors' report.

Executives

The names and details of the company’s Executive and Company Secretaries of Elk Petroleum in office during the financial year and until the date of this report are as follows. Secretaries were in office for this entire period unless otherwise stated.

Alexander Hunter
CFO, Sydney

Mr. Hunter has over thirteen years’ experience in resources sector M&A and capital raising, and previously worked for ten years in construction and infrastructure project management. Alex was most recently General Manager Business Development at Drillsearch Energy where he helped to rationalise and grow the business leading various successful takeovers, divestments and capital raisings. He holds an MBA from University of Southern California Marshall School of Business, a Bachelor of Engineering, and postgraduate qualifications in corporate finance and business law.

David Evans
COO, Sydney

Mr. Evans is a geologist with 30 years upstream global oil & gas development, production and exploration experience, with significant exposure to Brownfield redevelopments and EOR projects. He joins Elk Petroleum from the former Drillsearch where over a 6-year period he held the positions of Chief Technical Officer and Acting Chief Operating Officer.

David Franks
Joint Company Secretary

Mr. Franks (B. Ec, CA F Fin, FGIA JP) has 20 years in finance and accounting, initially qualifying with PricewaterhouseCoopers (formerly Price Waterhouse) in their Business Services and Corporate Finance Divisions, Mr. Franks is a Senior Executive of Automic Group Pty Ltd. and has been CFO, Company secretary and/or Director for numerous ASX listed and unlisted public and private companies, in a range of industries covering advertising, energy retailing, transport, financial services, mineral exploration, technology, automotive, software development and healthcare.

Current directorships: JCurve Solutions Limited.

Andrew Bursill
Joint Company Secretary

Mr. Bursill (B. Agr. Ec, CA, FGIA) qualified with PricewaterhouseCoopers then began his career as an outsourced CFO and company secretary in 1998. Mr. Bursill is a Senior Executive of Automic Group Pty Ltd. and has been CFO, company secretary and/or director for numerous ASX listed, unlisted public and private companies, in a range of industries covering mineral exploration, oil and gas exploration, biotechnology, technology, medical devices, retail, venture capital and wine manufacture and distribution.

Current directorships: Argonaut Resources Limited

Brian Dolan
COO, Elk Petroleum Inc., Denver

Mr. Dolan brings 26 years of diverse engineering management and operations experience in the oil and gas industry to the Elk team. Mr. Dolan has held several leadership positions while working for Shell, Amoco, and three independent E&P companies over his career. His experience ranges from shallow CSG development plays to deep complex exploration environments. Before joining Elk in January 2014, he spent the last seven years developing shale resources with horizontal drilling in four different plays. Brian resigned from Elk and all subsidiaries on 17th September 2018.

J. Scott Hornafius
President, Elk Petroleum Inc., Denver

Dr. Hornafius has 32 years of exploration, technical, management and funding experience in the oil and gas industry including 16 years with Mobil in the USA, PNG and UK before founding MegaEnergy in 2000. As President of Mega Energy he developed a 100,000 acre position over the Marcellus shale gas play in the Appalachian Basin. The divestment of this position was completed in 2012 for approximately US$100 million. Scott ceased employment from Elk and all subsidiaries on 5th May 2018.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		**Audit Committee**		**Remuneration Committee**	
	Attended	**Held**	**Attended**	**Held**	**Attended**	**Held**
N Taylor	13	13	2	2	-	-
B Lingo	13	13	-	-	5	5
R Krause	12	13	1	2	5	5
T Hargreaves	13	13	2	2	5	5
J Piccone *	5	5	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Appointed on 2 February 2018

Loans to directors and executives

At the reporting date, there were no loans to directors and executives.

Indemnity and insurance of officers

Elk Petroleum has made an agreement to indemnify all the directors and officers of the group against all indemnifiable losses or liabilities incurred by each director and officer in their capacities as directors and officers of the consolidated entity. During the year Elk Petroleum paid insurance premiums in respect of directors and officers liability insurance contracts for current officers of the company, including officers of the company's subsidiaries. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor during their period of office as auditor.

Officers of the company who are former partners of KPMG

There are no officers of the company who are former partners of KPMG.

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.

Auditor

On the 27th June 2018 BDO East Coast Partnership (“BDO”) resigned as auditor in accordance with the Corporations Act 2001. On the same date the Board resolved to appoint KPMG as the Auditor. KPMG will act as the Company’s auditor on a ‘casual vacancy’ basis until the next Annual General Meeting to be held in November 2018 at which time KPMG will be formally appointed as the Company’s new auditor subject to shareholders’ approval. The Board confirmed that there were no disagreements between BDO and the management and Directors of the company.

Elk Petroleum Limited 2018 Remuneration Report
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1 Letter from the Chair of the Remuneration Committee

Dear Shareholders,

On behalf of the Board, I am pleased to present the Remuneration Report for the financial year ended 30 June 2018. The report outlines the nature and amount of remuneration for Elk Petroleum Limited's (Elk, the Company) Non-executive Directors, Executive Directors, other Key Management Personnel ("KMP") and other employees.

Revamped Remuneration to Match Company's 2016-18 Transformation:

The Company has capitalised on the recent low oil price environment and related distressed sales of attractive assets to expand its scale and add significant future growth potential. The Company's 2016 restructuring of its Grieve JV funding arrangements delivered significantly increased project equity and economic participation and ultimately expedited project completion; the acquiring of a minority but strategic interest in the Madden gas field in 2017, added a world class gas/CO_2 asset.

Then came the acquisition of the Greater Aneth Oil Field and associated CO_2 EOR Project ("Aneth") on 7 November 2017; this step added a material operating interest in a world class oil field to the Company's asset base and provides significant value growth potential. As the Board Chairman sets out in his 2018 Shareholder Review, capturing this asset has transformed the Company.

As such, our remuneration planning needs to change to reflect that the Company is now the operator of a world class asset with a 100 strong work force in the very competitive US market for oil and gas industry management and operating staff. Our revised remuneration plans provide consistency for most of the workforce, which operated Aneth for the previous majority interest owner. The Board has taken the view that remuneration of its much-enlarged team is very important to realising success from the acquired Aneth assets and completing our current refinancing efforts.

Our challenge has been to revise our remuneration policies and plans to meet US practices and benchmarks as well as align such revisions with the interests of all stakeholders.

The over-riding objectives are to retain the team and keep them focused on increasing returns to Shareholders through future Aneth enhancements in reserves, production and operating margins in order to improve our balance sheet, profitability and market value recognition. The revisions are designed to retain and incentivise the team to meet these objectives. The team has already used its skills and knowledge to support the Company's independent reserves consultant, Netherland Sewell and Associates, Inc., in more than doubling its valuation of the Company's 2P Reserves to almost US$450 million. In simple terms: the "new" team is already proving their value to the Company.

This report also includes a number of examples showing the nature of the adopted US remuneration structure, which is recommended by one of the major US independent remuneration consultants, Longnecker & Associates (Longnecker). Longnecker recommended that the Company's remuneration plan closely align with the previous Aneth asset owner's remuneration plan structure and be benchmarked to the remuneration profiles of a group of US peer companies with similar characteristics to Elk, including its operatorship role, size of its workforce, the range and diversity of its assets, the size of its operations, levels of oil and gas production, and its financial situation. Longnecker recommended that this benchmarking also include reference to several industry-wide remuneration survey indices.

Summary of Remuneration Changes:

The Remuneration Committee recommended to the Board:

- Adoption of a new incentives plan to motivate its newly expanded US organisation, which is intended to support sustained focus and performance delivery from its US assets, and that this new plan apply in due course to both US-based and Australia-based employees. The objective is to have "one plan *for* all employees", and
- Revised short-term and long-term performance criteria and structures more suitable to the Company's near-term consolidation needs and consistent with US practices given the majority of the team is now US-based,
- Remuneration be generally consistent with the remuneration that the majority of new employees received from the previous operator of the Aneth asset, and
- Continuing stability and engagement of the US-based workforce down to the field level as a priority.

The Board adopted these principles and the advice from Longnecker, who endorsed the employment terms and plans as being consistent with local market conditions and in some cases require upwards adjustments to remain competitive given the high-demand for oil & gas personnel in the US.

Revised remuneration plans will extend with some minor variations to the small number of Australian-based corporate staff noting that the US remuneration structures give a lower weighting to fixed cash remuneration and a higher weighting to both short-term and long-term incentives than generally apply to the petroleum industry in Australia. This decision was made after consideration of the relative materiality of conflicting risks and rewards. The seven Australian and US employees, who are participants in the current incentives plan and have continued employment with the Company, will make the transition from the current plan to the new plan over the next 6 months, whereas the new plan will apply to the other 100+ US employees from 1 January 2018.

Elk's current incentive arrangements involve a short-term incentive (STI) opportunity based on the annual increase in oil production and a long-term incentive (LTI) based on the annual increase in Year End Proved Developed Producing (PDP) Reserves. These incentives were appropriate to motivate employees to transform the Company in terms of size and potential. The recent transformation now demands new STI and LTI performance measures to retain and stabilise the new US operating organisation as well as integration with our Australian corporate management and staff.

New Incentives Plan

Under the new plan, STI awards will be assessed 50% on personal performance KPIs and 50% on key Company US operating metrics that drive the Company's short-term financial outcomes. LTI awards will based on two components: time-based awards and performance-based awards. Initially, only Key Management Positions (KMPs) will be eligible to receive the performance-based LTI awards; entitlement to performance-based awards might be extended to other senior executives in coming years.

For CY18 Award entitlements to KMPs, 50% of the Target LTI Award will be time-based, 50% performance-based. Performance-based awards will be earned on achievement of a combination of Share price or absolute Total Shareholder Return (TSR) hurdles and relative TSR performance hurdles when comparing the Company's TSR to those of its peers using relative TSR (RTSR) performance hurdles.

1/3rd of award entitlements will vest annually over the 3-year Awards period. For the initial CY18 Grants, vested awards will be paid in cash. It is possible grants in future years might be based wholly or in part on the granting of rights to Shares; if this approach is proposed, shareholder approval would be sought.

The Remuneration Committee sees this overall LTI approach as directly aligning the long-term outcomes for the Company's KMPs with shareholder value creation and sees the use of a mix of performance measures as reducing the exposure to volatility from external causes such as oil price movements. For other employees, LTI Awards will be based solely on time-based performance; which is a widespread practice in the US for non-KMPs.

The new plan will be effective from 1 January 2018 with the CY18 awards applying to the majority of US-based employees. The seven existing plan participants will migrate to the new plan by participation in the CY19 awards.

Transition of Australian-based Corporate Management and other Staff from the Old Plan to the New Plan:

In determining and making the 2018 STI and LTI awards under the current plan, the Board took the view that the awards applicable under the prevailing plan rules reflect very well the quality and long-term value potential of the acquired Aneth assets, but the assessed 2018 awards were not aligned with Shareholder outcomes via share price movement over the same 2017-18 performance period. The Remuneration Committee and Board concluded that the preliminary assessed outcomes for 2018 STI and LTI awards to employees were out of time synchronisation with the relatively modest short-term rewards to Shareholders.

The Board believes the timing/value misalignment is reflective of (1) the total debt used to complete the recent Aneth, Madden and Grieve transactions and (2) the current plan's LTI Award assessment rules not reflecting the short-term impact of related debt. This situation is expected to substantially correct itself after the Company completes a successful refinancing of its debt in late 2018.

As a consequence of this short-term misalignment and the expectation of a near-term correction, the Board exercised its discretion under the EPI Plan Rules to determine that the 2018 STI and LTI Awards, which are now due, be made at 25% of the levels assessed under the normal rules and to defer determination of the remaining 75% of the assessed outcomes until the Company's cash flow and financial management performance allow a determination that such deferred amounts can be made ("Deferred Awards").

The making of any new annual STI and LTI Awards under the normal plan rules will be suspended after the granting of the 2018 Awards for the 2017-18 period. This suspension of further annual grants is part of the planned transition of the remaining participants in this plan to the new incentives plan from 1 January 2019. For the second half of CY18 and to offset the suspension of any future annual STI and LTI awards applicable under the existing plan, the Board resolved to offer a one-off, conditional, cash Transition Award to cover the 2H18 bridging period before such employees move to the new incentives plan. The Remuneration Committee tested the above approach and concluded this approach would yield a relatively smooth remuneration transition for the current participants in the old plan.

Independent Specialist Advice:

The Remuneration Committee engaged an independent US remuneration expert and Australian and US legal advisers to advise the Board in making the above decisions. Furthermore, the US remuneration consultant was used to ensure alignment between the Company's remuneration policies, best-practices evident in the US market, comparative issues for benchmarking remuneration of Australian-based employees, and tailoring our plans to the Company's circumstances, including addressing the structural and benchmarking differences between Australian and US remuneration markets and practices. An Australian independent remuneration consultant assisted with the preparation of this Remuneration Report.

During 2018, the Remuneration Committee spent a considerable time reviewing its remuneration policies and practices, including the manner by which it communicates its considerations, how any changes are expected to work, and what matters will be brought to Shareholder's attention. In developing this year's Remuneration Report, the Board has elected to exceed the statutory requirements of a typical Remuneration Report in order to provide shareholders with an increased understanding and genuine insights into the remuneration governance, policies, procedures and practices being applied. Fully informed judgements can then be formed in relation to Shareholders considering the endorsement of the Remuneration Report at the upcoming Annual General Meeting (AGM).

The Directors will be pleased to receive your feedback and engage with shareholders and their representatives on these matters. We look forward to your comments, and support for likely AGM remuneration related resolutions between now and at the upcoming AGM.

Mr. Russell Krause

Independent Non-Executive Director

Chair of the Remuneration Committee

2 Persons Addressed and Scope of the Remuneration Report

The Remuneration Report sets out the prescribed key management personnel (KMP) remuneration information and details in accordance with section 300A of the Corporations Act and associated regulations, including policies, procedures, governance, and factual practices as required.

In addition, Elk has made a governance-driven decision to set out such further information as shareholders may require for them to obtain an accurate and high level of understanding of the Company's approach to the remuneration of Key Management Personnel (KMP) as well as all employees in general. KMPs include the non-executive directors, the executive directors and a very limited number of senior executives, who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity and its major subsidiaries. On that basis, the following roles/individuals are addressed in this report:

Non-executive Directors (NEDs)

- Dr Neale Taylor, independent non-executive director since 6 September 2010,
    - Chairman of the Board since 30 October 2010,
    - Member of the Audit Committee from 28 September 2010,
    - Member of the Risk Committee from 25 June 2014,
- Mr Russell Krause, independent non-executive director since 13 March 2015,
    - Chair of the Audit Committee from 25 March 2015,
    - Member of the Risk Committee from 2 July 2015,
    - Chair of the Remuneration Committee from 14 December 2016 and member since 25 March 2015,
- Mr Timothy Hargreaves, independent non-executive director since 12 May 2015,
    - Chair of the Risk Committee since 2 July 2015,
    - Member of the Remuneration Committee since 14 December 2016,
    - Member of the Audit Committee since14 December 2016.

Senior Executives Classified as KMP During the Reporting Period, or Otherwise Specifically Addressed in this Report for Completeness

- Mr Bradley Lingo, Managing Director and Chief Executive Officer, Elk Petroleum Ltd. since 1 August 2015 and member of Risk Committee and Remuneration Committee since 26 November 2015,
- Mr James Piccone, Chief Executive Officer, Elk Petroleum Inc. since 1 January 2018, Executive Director of the Board since 2 February 2018
- Mr Alex Hunter, Chief Financial Officer, Elk Petroleum Ltd. since 11 April 2016,
- Mr David Evans, Chief Operating Officer, Elk Petroleum Ltd. since 1 May 2016,
- Mr Brian Dolan, Vice President-Engineering, Elk Petroleum Inc., since 15 December 2013,

During the period the following person ceased to be a KMP:

- Mr Scott Hornafius, President, Elk Petroleum Inc., ceased employment on 5 May 2018.

Subsequent to the end of the reporting period the following KMP appointments/changes have occurred:

- Mr Brian Dolan, Manager - Projects, Elk Petroleum Inc., ceased employment on 7 September 2018,

3 Context of and Changes to KMP Remuneration for FY18, CY18 and CY19

3.1 Matters Identified as Relevant Context for Remuneration Governance in FY18, CY18 and CY19

The KMP remuneration structures and outcomes that appear in this report are usually only those that relate to FY18, as is required by regulation. However, given the significant transition that is being undertaken, the Board has determined to provide additional information and context including in relation to CY18 and CY19, where appropriate, to provide shareholders with a more complete view of remuneration governance in relation to changes to its policies and plans.

The following sections outline important matters that were relevant to the decisions that were made in relation to remuneration during FY18 and in regard to actual or assessed outcomes for both FY18 and CY18, the outcomes of which are presented in this report. Some outcomes that could flow from introduction of a new incentives plan are explained for CY18, and, to a much lesser degree, for CY19 to support understanding of how the proposed new plan's outcomes might look over the next several years.

- During FY17 and FY18 the Board received feedback from both stakeholders and US independent consultants on KMP remuneration governance and practices in the US and has sought to be responsive to that feedback. The main themes emerging from those engagements are dealt with in this report.
- Market capitalisation is one of the factors that influences external assessments of the appropriateness of remuneration; external groups tend to see it as a primary remuneration benchmark criterion. However, given the impact of debt on near-term market capitalisation, the company has used additional peer comparisons on other key performance measures such as enterprise value (EV), oil & gas production rates, Proved Reserves (with an emphasis on the very low risk PDP Reserves category), upside resources potential, EBITDA, staff numbers, and regional factors in the US Rockies employment pool from which the Company is competing for the majority of its talent given the Company is now an operator for a major onshore oil production joint venture which uses a range of improved recovery technologies. More information on peer groups and benchmarking is set out in Section 4.5.
- In regard to the Company's market size, it is noted that the market capitalisation of the Company increased from US$45 million (A$56 million) at the end of FY17 to approximately US$88 million (A$119 million) as at the end of FY18. A fuller understanding of the Company's inherent asset size is conveyed by reference to the Company's NPV10% 1P & 2P of approximately US$450 million. FY18 gross revenue was US$95.1 million.
- Notwithstanding the foregoing comments about the dampening effect of debt on the Company's share price, the share price increased by approximately 20% during FY18, representing a modest but material return for shareholders, and a significant change to the preceding historical performance of the Company as shown in Section 4.11. The Board remains focussed on ensuring that the full value of the Company's transformation will be increasingly recognised by the market and relatively quickly once the Company's debt is restructured and re-priced later this year.
- The Company is in the process of implementing its refocused plan, which has been significantly re-engineered in respect of the potential to accelerate Aneth development opportunities, and which have relevance to designing our forward remuneration policy and plans, including:
  - Acquisition of the Greater Aneth Oil Field now provides a growth platform for the Company to pursue increased proved reserves and oil production. This acquisition provides the Company with an expanded basis for capital development and the ability to expand oil reserves and production. The Company has published estimates that likely developments at Aneth can more than triple our current 23.3 million PDP Reserves (oil) over the next 5 years. This upside potential is currently classified as Technical Proved Undeveloped Reserves and/or Probable Reserves and does not include the additional resources potential in the higher risk resources categories.
  - The Aneth acquisition means the company has gone from having 9 employees at 30 September 2017 to over 100 as of 1 January 2018 and the total has grown as of the time of this report to 112 full-time employees with additional dedicated supporting contractors. This organisational growth has increased the scope and complexity of our KMP roles and responsibilities.
  - The foregoing has brought with it significant challenges related to both (i) ensuring the employees of a previously US-owned and operated company make a smooth and stable transition to the "new" Elk group, and (ii) integrating the small Australian corporate workforce with the enlarged US workforce. Stability and organisational harmony will be keys to the ongoing success of the Company's transformation.
  - The current high-priority issue is refinancing the Company's debt, which is largely driven by the Aneth Acquisition. The Board is focused on refinancing this debt in order to:
    - simplify the overall balance sheet,
    - reduce the overall cost of debt capital, including lower mandatory amortisation,
    - improve cashflow to equity for reinvestment in the development of the business,
    - generate higher and more sustainable expected economic profit, and
    - to provide a flexible solution to allow the company to continue the development of its existing assets and reward employees for jobs well done and the operating and financial performance to support the above points.

The Board feels that the company is in a strong position to achieve these outcomes with the Aneth Oil field providing a strong asset base and operating cash flow to attract lower debt costs and allow for a simplified debt structure.

- The following should be noted with regards to changes in the executive KMP team and changes that occurred during FY18 or subsequently:
  - James Piccone commenced employment as the CEO of Elk Petroleum Inc. on 1 January 2018; Jim was appointed to the parent Company's Board as an Executive Director on 2 February 2018, filling a casual vacancy; Jim will seek election by Shareholders at the 2018 AGM,
  - Scott Hornafius ceased employment as a President of Elk Petroleum Inc., on 5 May 2018,
  - Mr Brian Dolan ceased employment as Chief Operating Officer of Elk Petroleum Inc., on 7 September 2018, and
  - Mr David Evans was made the Chief Operating Officer for both Elk Petroleum Limited and Elk Petroleum Inc. on 31 August 2018, and appointed a Vice President and Director of Elk Petroleum Inc. on 19 September 2018.

- Financial performance during the year exceeded expectations due to the significant changes in the scope and diversity of the Company's business. The Board sees the Aneth acquisition as a once-in-a-generation opportunity for the Company to pick up an asset with such significant potential to grow the Company over the next decade. The bridging debt was a necessity to complete the Aneth acquisition quickly in a unique low oil price window. The Board is now focused on strengthening the balance sheet over the next couple of years in order to support the objective of sustained growth in the Company's share price. The Board is pleased with the Company's results for FY18 and looks forward to the ongoing support of shareholders while it builds up the balance sheet.

3.2 Key Remuneration Matters Identified and Adjustments Made or Planned in Response, Since the Previous Report

During FY18, the following KMP remuneration related matters were identified for consideration and/or action during the reporting period and into 2H18 and CY19:

- Material plan changes made or planned are summarised below:
  - Base Salaries including superannuation (Base Package) or Fixed Annual Remuneration (FAR)
    - During FY18 the Board resolved to move as quickly as possible to have most employees' Base Salaries equal to the 50th percentile level of a mix of US peer companies and US industry survey indices. All US employees and the Australian-based MD/CEO (currently 107 in total) will be benchmarked to US market data. Remaining Australian KMPs and other employees (currently 5 in total) will be benchmarked to a mix of Australian market indices and other market survey data and subjective comparison with the very limited number of suitable peer companies listed on the ASX. This action is needed to employ and retain staff in a very competitive US petroleum industry employment market.
    - Selection of the US peer group and remuneration survey indices considered a range of factors: company market capitalisation, enterprise value, production, reserves and types of reserves with weighting to Companies with low risk oil reserves, EBITDA, Lease Operating Expense (LOE), and the state of competition in the U.S. Rocky Mountain employment pool. Longnecker recommended a US peer group and supporting indices to be used; the Company adopted this recommendation. Longnecker also recommended that we benchmark base salary packages for all KMPs and senior executives to the 50th percentile benchmark level from the peer group and indices. Where more material increases were recommended, the Company will stage increases over two years.
  - Total Remuneration Package
    - Longnecker recommended that we benchmark the Total Remuneration Package (Base Salary Package plus STI and LTI Awards) for all KMPs and senior executives to fall in the 50th to 75th percentile range of benchmark levels from the peer group and indices.
  - Current EPI Plan
    - 2018 Awards
      - The incentive framework in place during FY18, was provided by the Employee Performance Incentive (EPI) Plan, which was approved by shareholders in November 2016. This plan provides for annual short term and long-term incentives to be awarded. The plan was initially designed with the development of the Madden and Grieve fields in mind; Aneth appeared as a possibility in the final stages of gaining shareholder approval of the plan. The plan rules are set out in Section 4.12.
      - Late in FY18, the Board recognised that due to the impact of the Aneth acquisition, the maximum LTI award share caps of 25 million Shares for the MD/CEO and 62.5 million shares for all Plan Participants, including the MD/CEO, were likely to be reached at the end of the 2nd year of the 3-year plan period – after share cap limit adjustments for tax deductions made by the Company, awards to US Participants paid in cash rather than Shares, and for unallocated Participation Factors where the sum of such factors was less than the maximum 2.5% under the amended Plan Rules.
      - The Board considered the timing misalignment of employee and shareholder awards and decided to amend the plan to allow final determination of the 2018 STI and LTI Awards at a level of 25% of the levels assessed under amended Plan Rules.
      - Expected 2018 Awards are set out in Section 5(a).
    - Deferred Awards
      - The Board decided to defer determination of the other 75% of the STI and LTI levels assessed under the amended Plan Rules. Future reviews to determine when and if the Deferred Awards will be paid in cash or combination of cash and shares will be conducted on a 6-monthly basis. The review focus will be on reaching a prudent level of cash flow capability and financial management performance and based on board discretion. Deferred Awards will be subject to the amended EPI Plan Rules.
      - Details of Deferred Awards are set out in Section 5(b).
    - 2H18 Transition Awards
      - There will be a 6 months gap between the end of the 2nd year (FY18 ending on 30 June 2018) of the EPI Plan and the planned migration of the EPI Plan Participants to the new incentives plan with initial participation in the CY19 awards for the 3-year period commencing 1 January 2019.

- The Board decided to create a Transition Award for this 6-month bridging period. The Award will provide an ongoing motivation to complete a successful refinancing before the end of CY18 and migrate to the new incentives plan, as well as compensate Plan Participants for forgoing a 50% proportional (half-year) STI Award under the EPI Plan rules.
- This Transition Award will be conditional on completing a successful refinancing before 31 December 2018.
- Due to the importance of refinancing the company's debt position, the Transition Award will have a total value of US$739,100 (A$1,000,000) conditional on refinancing the company's debt before 31 December 2018. This one-off transitional plan will not be repeated in the future.
- The award can be paid in cash and/or shares. All then-remaining participants in the EPI plan are eligible to receive a portion of the award in the same relative proportions as applied to their previous STI Awards.
- The 2H18 Transition Award are described further in Section 5(c).

- New Plan
    - The Board has introduced a new incentive plan to apply from 1 January 2018.
    - This plan will, in due course, apply to all eligible employees in both the US and Australia; the plan is designed predominantly to provide a sense of continuity of employment terms and conditions to the Company's new US employees. Australian-based employees and three US-based employees, who are participants in the old plan, will migrate to the new plan 12 months later on 1 January 2019.
    - The plan will have both STI and LTI components.
    - The STI awards for CY18 will be based 50% on personal KPIs and 50% on Company operating performance metrics tied directly to the 2018 Operational Plan and Budget for that calendar year. Personal KPIs will reflect each individual's areas of responsibility be they financial, operations, technical, development and/or administration. STI Awards will be paid in cash.
    - The LTI awards will be in the form of entitlements to receive cash on achievement of specified service and performance hurdles. Granted awards will vest 1/3rd in each year of the 3-year award period if specified hurdles are satisfied
    - LTI Awards will be of two types: time-based and performance-based awards.
    - For CY18 award entitlements to KMPs, 50% of the Target LTI Award will be time-based, 50% performance-based.
    - Vesting of time-based awards will occur on the successful completion of each 12 months employment. Performance-based awards will be earned on achievement of a combination of Share price or absolute Total Shareholder Return (TSR) hurdles and Company TSR performance relative to its peers using relative TSR (RTSR) performance hurdles.
    - It is possible grants in future years might be based wholly or in part on the granting of rights to Shares; if proposed, shareholder approval would be sought at a future General meeting of Shareholders. This aspect of the plan will be considered as part of setting the terms and conditions for each future annual grant of entitlements under the new plan.
    - Entitlement to performance-based awards might be extended to senior executives, other than KMPs, in coming years.
    - Plan rules are described in Section 4.12.

- **Non-Executive Director and Adviser (NEDA) Plan**
    - No changes to base fees for non-executive directors have been made for FY19 and the Board will not be seeking an increase to the aggregate fee limit (AFL) for NEDs at the 2018 AGM. The AFL is currently set at A$350,000 and further background is outlined in Section 8.
    - Individual NEDs receive an annual fee and equity-based remuneration made in the form of retention rights, subject to continued service, and performance rights subject to a set of absolute TSR performance conditions. The use of such rights allows the Company to preserve its cash as well as align the non-executive directors' interests with those of shareholders.
    - It is planned to retain independent remuneration consultants (i) to benchmark NED fees and equity-based remuneration and (ii) to make recommendations in regard to any appropriate changes for implementation in 2019.
    - Details of fees and rights granted and vested are set out in Section 9.2.

4 Overview of Elk Petroleum's Remuneration Governance Framework & Strategy

4.1 Transparency and Engagement

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- Shareholders,
- Remuneration Committee Members,
- Stakeholder groups, including proxy advisors,
- External remuneration consultants (ERCs),
- Other experts and professionals such as tax advisors and lawyers, and
- Company management to understand employee's roles and the issues facing the Company.

The Board seeks to be transparent in its disclosure of remuneration practices and governance, including the provision of additional information over and above statutory requirements, to Shareholders, to support engagement. The following outlines a summary of Elk Petroleum's Remuneration Governance Framework and Policy that has resulted from those engagements and related considerations. Further details on the Company's governance and related policies can be found on the company website at https://www.elkpet.com/governance-and-compliance.

4.2 Remuneration Committee Charter

The Remuneration Committee Charter (the Charter) governs the operation of the Remuneration Committee (the Committee). It sets out the Committee's role and responsibilities, composition, structure and membership requirements. The purpose of the Committee is to assist the Board by:

- Keeping itself appraised of the latest developments, policies and trends regarding remuneration issues which affect the market(s) in which the Company operates;
- When providing advice to the Board, the Committee has the overriding goal of ensuring that Directors and senior executives of the Company are motivated to pursue the long-term growth and success within an appropriate framework and ensuring there is a clear relationship between performance and remuneration;
- Determining a policy for the remuneration of the Managing Director/Chief Executive Officer and such other senior executives as the Board requires it to consider. The Managing Director/Chief Executive Officer or an Executive Director to have direct involvement in the determination of their remuneration;
- Recommending the Total Remuneration Package of each executive including individual components of the package;
- Reviewing the senior management performance assessment processes and results;
- Making recommendations regarding the Company's recruitment, retention and termination policies for senior executives;
- Making recommendations regarding policies governing incentive schemes, including equity-based remuneration plans, and requesting the Board to seek shareholder approval of such policies where necessary or appropriate; and
- Making recommendations regarding policies for the remuneration of non-executive directors including the total quantum of remuneration to be paid to all non-executive directors and the allocation of the quantum between the directors.

The Committee has the authority to seek independent professional advice for remuneration-related matters.

Elk Petroleum recognises the importance of ensuring that any recommendations given to the Committee by external remuneration consultants are provided independently of those to whom the recommendations relate. Further information about the parameters under which external remuneration consultants are engaged is provided in Section 13.

4.3 Senior Executive Remuneration Policy

This policy outlines the Company's intentions regarding Senior Executive remuneration, as well as how remuneration is intended to be structured, benchmarked and adjusted in response to changes in the circumstances of the Company, and in line with good governance.

- Remuneration should be composed of:
    - A Base Package (inclusive of salary, superannuation, allowances, benefits and any applicable fringe benefits tax (FBT),
    - Short term variable remuneration which provides both upside and downside based on performance against annual objectives, and
    - Long term variable remuneration will consist of a mix of time-based and performance-based awards; Only KMPs will be eligible to receive performance-based awards, which will cover both upside and downside outcomes based on an equity-linked reward for performance against indicators of shareholder benefit or value creation, over multiple years, in a way that supports a continuous improvement framework; employees, who are not KMPs, will receive time-based awards to motivate such employees to remain with the Company in a very competitive employment market.
    - In total, the sum of the elements will constitute a Total Remuneration Package (TRP).
- Both internal relativities and external market factors should be considered in benchmarking a role,
- Total Remuneration Packages (TRPs, which include Base Package and incentives) should be structured with reference to market practices and the circumstances of the Company at the time,
- Base Package policy mid-points should be set with reference to P50 (the median or the middle) of the relevant market practice, however international market references will be considered and used to modify the benchmarks where appropriate and noting any significant international workforce reporting to Senior Executives in a different international setting,
- Remuneration will be managed within a range so as to allow for the recognition of individual differences such as the calibre of the incumbent and the competency with which they fulfil a role,
- TRPs (being the Base Package plus incentive awards) should fall between P50 and P75 (in the third quartile) of the relevant market practice so as to create a strong incentive to achieve objectives in both the short and long term, and TRPs at "Stretch" levels should recognise outcomes above the P75 level of achieving unique opportunities and that would be regarded as exceptionally challenging and not strongly influenced by external factors such as oil price, and
- Termination benefits for employees will generally be limited to the default amount allowed for under the Corporations Act (without shareholder approval).

4.4 Non-executive Director Remuneration Policy

This policy applies to non-executive directors (NEDs) of the Company in their capacity as directors and as members of committees, and may be summarised as follows:

- Remuneration may be composed of:
    - Board fees,
    - Committee fees,
    - Superannuation,
    - Other benefits, and
    - Equity, which is currently provided in the form of rights granted under the Non-Executive Director and Advisor (NEDA) Plan, which was approved by Shareholders on 20 November 2017.
- Remuneration will be managed within the aggregate fee limit (AFL) or fee pool approved by shareholders of the Company; the current approved AFL is US$262,500 (A$350,000).
- Remuneration should be reviewed annually, and benchmarking conducted when deemed necessary,
- The current annual NED fee is US$45,000 (A$60,000),
- Termination benefits will not be paid to NEDs by the Company,
- A policy level of Board Fees (being the fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees) will be set with reference to the P50 (median or middle) of the market of comparable listed companies,

- Committee fees may be used to recognise additional contributions to the work of the Board by members of committees and the inclusion of these should result in outcomes that, when combined with Board Fees, should cluster around the P50 of the market of comparable listed companies,
- In relation to the Board Chair, a policy multiple may be used to set Board Chair Fees with reference to the fees payable to other NEDs; the current multiple is 1.8 times the standard NED fee. The current Board Chair fee is US$81,000 (A$108,000).

4.5 Approach to Determining Comparators for Remuneration Benchmarking

When the Company seeks external market data in relation to NED or KMP/ Senior Executive benchmarking, the following principles are generally intended to apply, however the Board seeks independent expert advice regarding design of comparator groups as part of engaging an external remuneration consultant.

A benchmarking comparator group account for the Company's estimated sustainable market capitalisation at the time of the benchmarking exercise and will include direct competitors of comparable scale to the extent possible. The group should be large enough to produce valid statistics, and small enough to be reasonably specific, however to the extent that direct competitors are not sufficient to produce a statistically robust sample, companies of comparable or larger scale from the same industry or sector will be included. US and Australian data and reference points, including industry-wide survey indices relevant to the workforce at the time, will also be considered in determining positioning relative to benchmarks. These principles are specific to remuneration benchmarking exercises and therefore may produce different outcomes than those applied to the design of other types of comparator groups, such as for performance comparison purposes.

For the Managing Director and US Executives, the peer group for remuneration purposes was assessed by Longnecker and comprises 15 companies considering the following parameters: Revenue, Market Capitalisation, Enterprise Value, Assets, EBITDA, 1-Year TSR, 3-Year TSR, 5-Year TSR, portion of oil and gas as reserves, Total Debt and Debt/Market Capitalisation Ratio; this peer group is judged to represent the major competitors trying to employ the same people as the Company is trying to employ and retain. The US peer group is shown below together with the industry survey indices considered:

Approach Resources, Inc..	Evolution Petroleum Corporation	Lonestar Resources US Inc.
Bonanza Creek Energy, Inc.	Extraction Oil & gas, Inc.	PrimeEnergy Corporation
Denbury Resources, Inc.	Gastar Exploration Inc.	Resolute Energy Corporation
Earthstone Energy, Inc.	HighPoint Resources Corporation	Sanchez Energy Corporation
EP Energy Corporation	Jones Energy, Inc.	SRC Energy Inc.
Survey Data Source 1: ERI: Executive Compensation Assessor	Survey Data Source 2: L&A: Proprietary Energy Survey	Survey Data Source 3: Mercer (2017): Energy General Benchmark (US$100M-US$500M revenue)
Survey Data Source 4: CompAnalyst: Energy & Utilities (US$200M-US$500M revenue)		

For Australian based employees other than the Managing Director, the peer group was assessed internally based on the most recent NRG Peer Group Survey analyses in respect of the Less Than A$500 million Revenue Group.

4.6 Short Term Incentive Policy

The short-term Incentive policy may be summarised as follows:

- The Company should operate a formal Short-Term Incentive Plan (STIP) as part of the remuneration offered to KMPs/Senior Executives so as to:
    - Motivate KMPs/Senior Executives to achieve the short-term annual objectives linked to shareholder value creation,
    - Create a strong link between performance and reward,
    - Share company success with the KMPs/Senior Executives that contribute to it, and
    - Create a component of the employment cost that is responsive to short to medium term changes in the circumstances of the Company,
- Non-executive directors are excluded from participation,
- The measurement period for performance should be the financial year of the Company which is considered short-term,
- The STIP should be outcome focussed rather than input focussed, and while an individual performance component may be present, rewards should generally be linked to operational metrics that drive financial performance and lead to sustained shareholder value creation, and
- The Board to have a degree of discretion to amend the plan rules and vary the assessment terms and conditions for annual awards to match annual changes in context while recognising the commitment to reward employees for ongoing service and personal and company performance.

4.7 Long Term Incentive Policy

The long-term incentive policy may be summarised as follows:

- The Company should operate a formal Long-Term Incentive Plan (LTIP) as part of the remuneration offered to KMPs and other senior executives so as to:
    - Motivate KMPs and other senior executives to achieve long-term objectives linked to shareholder value creation over the long term,
    - Create a strong link between performance and reward over the long term, and
    - Share the experience of shareholders with the KMPs/Senior Executives that contribute to it including building an ownership position.
- The measurement period for performance should be aligned with both the financial year of the Company and longer term over a total three financial year period, and
- The Board to have a degree of discretion to amend the plan rules and vary the assessment terms and conditions for forward annual awards in order to recognize changes in forward contexts while recognising the commitment to reward employees for ongoing service and personal and company performance.

4.8 Defining Threshold, Target and Stretch for Variable Remuneration Purposes

In relation to the design, implementation and operation of variable remuneration including incentives there should, where possible, be a range of performance and reward outcomes identified and defined. These should be set with regard to the elasticity of the measure, the impact of the measure on shareholder value creation and the ability of KMPs and other senior executives to influence the measure. In order to create clarity and consistency, the following concepts and principles are generally intended to apply to the design of incentive scales:

- “Target”, being a challenging but achievable outcome, and which is the expected outcome for a Senior Executive/team that is of high calibre and high performing (generally 50% probability of achievement); generally associated with receiving 100% of a Target award;
- “Threshold”, being a minimum acceptable outcome for missing a target, (generally around 80-90% probability of achievement); generally associated with receiving less than a Target award, and
- “Stretch” (the maximum) level of outcome, which is intended to be a “blue sky” or exceptional outcome, which is expected to be achieved only rarely; the purpose of which is to create an extra incentive to outperform especially when the Target has already been achieved (generally a “Stretch” outcome would have something close to a 10% probability of achievement); generally associated with receiving more than a Target award, and sometimes materially more than a Target award.

4.9 Securities Trading Policy

The Company’s Policy on Trading in Company Securities, which applies to all Directors, Employees and Contractors, sets out the guidelines for dealing in any type of Company Securities. It also summarises the law relating to insider trading which applies to everyone. Under the current policy trading is prohibited during certain “closed periods”. The following periods in a year are “closed periods”, unless otherwise determined by the Board:

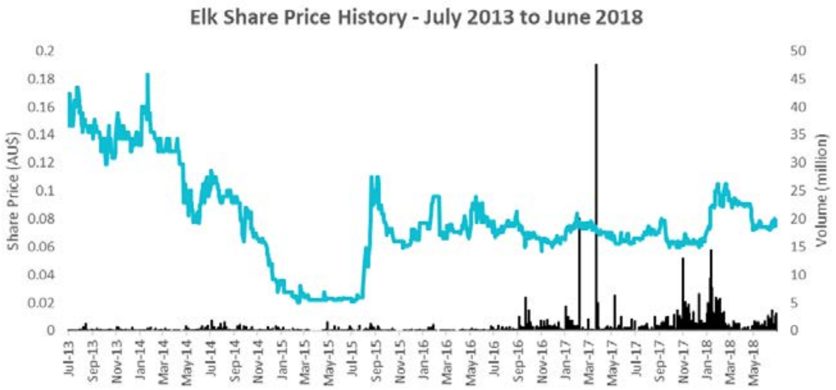
- The period from (and including) the 1st of January until the day the Company releases its December Quarterly reports to the ASX,
- The period from (and including) the 1st of April until the day the Company releases its March Quarterly reports to the ASX,
- The period from (and including) the 1st of July until the day the Company releases its June Quarterly reports to the ASX, and
- The period from (and including) the 1st of October until the day the Company releases its September Quarterly reports to the ASX.

4.10 Executive Remuneration Consultant Engagement Policy and Procedure

The Company has adopted an executive remuneration consultant (ERC) engagement policy and procedure which is intended to manage the interactions between the Company and ERCs, so as to ensure their independence and that the Remuneration and Nomination Committee will have clarity regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence whether or not the advice received has been independent, and why that view is held. The Policy states that ERCs are to be approved and engaged by the Board before any advice is received, and that such advice may only be provided to a non-executive director. Interactions between management and the ERC must be approved and will be overseen by the Remuneration and Nomination Committee when appropriate.

4.11 Share Price History

12 month and 5 Year Share Price History



4.12 Variable Executive Remuneration

4.12.1 Employee Performance Incentive (EPI) Plan

The key elements of the EPI Plan are summarised in the following table as approved by Shareholders at the November 2016 AGM. The EPI Plan was the employee incentive plan in place during FY18 for the Company's employees prior to the Aneth acquisition. It is intended that after making of the FY18 awards, which are outlined below, no further annual STI and LTI awards will be made under this plan and the plan will be suspended in the sense that, although no further annual awards will be made, the Plan Rules will still apply to managing outstanding Awards, including Deferred Awards and the 2H18 Transition Award. Current participants in the EPI Plan will move to the new incentives plan from 1 January 2019 (see new incentives plan description below and effective from 1 January 2018 for other employees).

The EPI Plan is managed by a set of Plan Rules and employee participation Invitations, or "Offer Letters", by which eligible employees can agree to take up such offers. The Offer Letters set out individual Participation Factors and a number of other acknowledgement terms and conditions consistent with the summary of current terms and conditions set out below.

The plan provides for granting of both short-term incentives (STI), which are cash settled, and long-term incentives (LTI) which are cash settled, and/or equity settled. The Plan and Plan Rules apply for a period of -3-years with the first performance assessment period or Measurement Period which commenced on 1 July 2016.

Summary of Current Plan Rules and Offers

Employee Performance Incentive Plan (EPI)	
Aspect	**Plan, Offers and Comments**
Summary of Plan Structure	At Elk's November 2016 AGM a new Employee Performance Incentive Plan (EPI Plan) was approved by shareholders. The EPI Plan is based on 2 basic components: **STI: Annual Production Award** – a short term component linked to growth in year-on-year increases to production, and **LTI: Annual Proved Development Producing (PDP) Reserves Award** – a long-term component linked to growth in year-on-year increases in Proved Developed Producing (PDP) reserves.
Participants	The Participants of the plan include the MD/CEO, any other executive directors, senior management team and other employees at the discretion and invitation of the board (the "Participants", currently 6 in number and covered 8 participants for part or all of FY18).
Measurement Period	Each financial year (12 months) commencing on 1 July 2016 (the" Measurement Period).
Award Calculation	**Award Pools:** **STI: Value of Annual Production Increase =** Annual Production Increase x Net Operating Margin **LTI: Value of Increased PDP Reserves** = Annual PDP Reserves Increase x the Average Net Operating Margin projected over the life of the field **STI Award or Annual Production Award**: STI Award Pool x Individual Participation Factor **LTI Award or Annual Proved Development Producing Reserves Award:** LTI Award pool x Individual Participation Factor
Award Quantum and Annual Award Cap:	Following the determination of the total amount of the award pool, the actual award quantum provided to any Participant in any year is linked to the Individual Participation Factor specific to that Participant based on an employee's position in the Group ("Individual Participation Factor"). The application of the Individual Participation Factor will determine the maximum amount of the Annual Production Award and the Annual PDP Reserve Award to be granted to a Participant. Cap 1: The maximum combined STI and LTI value amount, which is so determined for each Participant, is subject to an annual cap ("Annual Award Cap") which is multiple of the Participants Fixed Annual Remuneration or Base salary. There is a provision for Carry Forward of the surplus value above this cap if this Carry Forward value is not over-ridden by Caps 3 and 4 below. This occurred in the Board's assessment in determining 2018 Awards and related Deferred Awards. Cap 2: The number of Shares issued in any one year cannot exceed 2.5% of the total number of Shares issued by the Company. Cap 3: The total number of Shares issued at the end of three years cannot exceed a total of 62.5 million Shares over the initial 3-year Measurement Period for all employees, including the MD/CEO. Cap 4: The total number of ordinary Shares in the Company issued to Mr Lingo as MC/CEO cannot exceed a total of 25 million Shares over the initial 3-year Measurement Period for the MD/CEO. In assessing the caps on Shares in regard to determining 2018 Awards and Deferred Awards, the Board made adjustments by way of including an equivalent number of Shares to cover tax deductions made by the Company in cash, cash Payments of LTI's to US resident Participants, and adjustments to reflect that the sum of applicable Participation Factors was less than 2.5% and that one Participant ceased employment during FY18.
Award Determination and Payment	Calculations are performed following the end of the Measurement Period and checked during auditing of the Company's accounts. Annual STI Award or Production Award outcomes are paid in the form of Cash. Annual LTI or PDP Reserves Award outcomes are paid in cash for US-based employees, and in Shares for Australian-based employees. Issued Shares do not have any restrictions attached to them other than compliance with the company's Securities Trading Policy. It was decided to defer payment of 75% of the FY18 EPI Plan STI and LTI assessments to improve alignment with shareholder value creation (see discussion elsewhere in this report) which will be re-evaluated by the Board every 6 months for a decision to determine the granting of such Deferred Awards; Deferred Awarded can be paid in Cash and/or Shares. The Board amended the Plan Rules to allow deferral of up to 100% of assessed awards.

Cessation of Employment During a Measurement Period	EPI Plan payments for resigning employees or termination due to serious illness or disability will be pro-rated for incomplete Measurement Periods, including any Carry Forward Awards. There are no current or assessed Carry Forward (LTI) Awards given LTI Share caps have been reached. In the case of termination due to termination for cause, incentive payments will be forfeited on termination.
Change of Control	In the event of a Change of Control including a takeover, the full amount of any Annual Production Award, Annual PDP Reserves Award and Carry Forward Award up to the Annual and Aggregate Award Share Issuance Limit will become due and payable in cash.
Board Discretion	The Board has discretion to change the Plan Rules and to make partial or full payment in cash or Shares for the Australian-based employees, in regard to making Annual Proved+ Development Producing Reserves Awards.
Participation Factor	The award pool is based on the sum of each Participant's individual Participation Factor and these are apportioned down if the sum of their individual Participation Factors exceeds 2.5%. Each Participant in the plan has a predetermined individual Participation Factor ranging from 1% for the MD/CEO, 0.2% for each member of the senior executive team to 0.1% for other employees ("Individual Participation Factor"). For FY18, the Board assessed the sum of all eligible Participation Factors to be 2.1167%.
Net Operating Margin:	Net Operating Margin is the average gross operating profit margin in dollars per barrel of oil (or oil equivalent) produced over the Measurement Period. This measure is used as part of the calculation of award outcomes.
At-Risk Carry Forward Award:	To the extent that the amount of the award to be provided to any Participant in any year exceeds the Annual Award Cap applicable to that Participant, the excess amount of the award is carried forward ("Carry Forward Award"). The amount of the Carry Forward Award will be paid out on an annual basis over the next 2 years in two instalments equal to 50% of the amount of the Carry Forward Award. The full amount of the Carry Forward Award will remain at-risk and be subject to a reduction or cancellation due to a downward or negative revision in the PDP Reserves applicable to the award (excluding any reductions in PDP Reserves attributable to annual production since the determination of the award). The application of this clause was over-ridden in FY18 due to award levels reaching the plan caps on the total number of Shares that can be issued under the Plan and hence there are no current Carry Forward Awards.
Deferred Awards	The original Plan Rules provided the Board with discretion to defer up to 50% of the assessed STI and LTI values for a given Measurement Period. The deferred amount can be deferred for 6 months before the Board has to undertake a review as to the Company's ability to grant the outstanding assessed STI and LTI values in cash and/or Shares; further deferrals of 6 months are permitted. In exercising its discretion, the Board discretion must consider if the Company's cashflow and its financial management performance are at sufficiently prudent levels for the Board to determine to grant the deferred outstanding assessed values. In conducting its preliminary assessment of 2018 Awards, the Board resolved to modify the Plan Rules to allow the Board to defer up to 100% of assessed STI and LTI Award levels. 75% of the assessed FY18 STI and LTI award values have been deferred for 6 months at which time the Company's ability to determine to grant outstanding balances will be re-assessed.

4.12.2 New Incentives Plan

The Company has introduced a new incentive plan to apply from 1 January 2018. This plan will be known as the Elk Petroleum Limited Performance Rights Plan ("Performance Rights Plan" or "new plan" or "Plan" in this report).

The following table outlines the Performance Rights Plan developed by the Company for implementation in respect of CY18, to apply to new US employees from 1 January 2018 and other then eligible employees from 1 January 2019.

Summary of General Plan Structure and Plan Rules	
Aspect	**Plan, Offers and Comments**
Purpose	The purpose of the Plan is to provide Eligible Persons with an opportunity to share in the growth of the Company and to encourage them to improve the performance of the Company and its return to Shareholders. It is intended that the Plan will enable the Group to retain and attract skilled and experienced employees and provide them with the motivation to make the Group more successful.
Structure	The Plan provides for making incentive offers to eligible employees: it is intended to have two main components: one to have a short-term focus (the Short-Term Incentive or STI), the other to have a Long-term focus (the long-Term Incentive or LTI). The Plan will be administered through a set of Plan Rules and eligible employees will participate by entering each year into a Performance Rights Agreement (or "Award Agreement") between an eligible employee and the Company and that Award Agreement will set out a summary of the Plan Rules and the terms and conditions applying to each annual STI and LTI awards grant. An Award Agreement will set out an eligible employee's STI and LTI participation multiples (or percentage) and other related factors, the Measurement Period/s, performance hurdles, reward levels, and the terms and conditions applying to the offer made. Award Agreement offers will be made annually. Each annual Award Agreement will cover the related multi-year measurement periods for the Long-term incentive (LTI) components from the Award's commencement date and the hurdles for the awards over the 3 years. STI Awards will be administered and assessed annually. STI and LTI Awards will be made in cash with requirements for withholding standard levels of income tax deductions. Time-vesting and performance-vesting conditions will be set out in the Award Agreement with each Participant. The Award Agreement will set out the method to be used for determining the value of awards, vesting period/s, and the related terms and conditions in relation to granting of Awards based on actual performance outcomes.
Award Determination and Payment	Awards will usually be assessed following the end of each 12 months period within the Measurement Period. Awards will generally be paid in cash as soon as possible after the end of each relevant 12 months assessment period within the overall award Measurement Period.
Cessation of Employment During a Measurement Period	In the event of cessation of employment due to termination for cause, the STI for the year will be forfeited on termination. Except as provided below, vesting of awards under the LTI plan shall occur on a vesting date only if the Participant continues to be eligible from the date of grant to such vesting date. If the Participant ceases to be eligible at any time prior to the final vesting date, for any reason or no reason, with or without cause, except as provided below, all unvested awards shall be forfeited

	immediately and automatically on the date that Participant ceases to be eligible, without payment of any consideration to the Participant, and the Participant shall have no further rights under the Award Agreement. Death or Disability: Notwithstanding the foregoing, all unvested Time-Based Awards and Performance-Based Awards shall vest, effective immediately upon (i) the death of the Participant or (ii) the Administrator's determination that the Participant suffers from a Disability (as defined). For the purposes of this Agreement, "Disability" means: (A) if the Participant's employment with the Company is subject to the terms of an employment agreement between the Participant and the Company, which employment agreement includes a definition of "Disability," the term "Disability" as used in this Agreement shall have the meaning set forth in such employment agreement during the period that such employment agreement remains in effect; and (B) in the absence of such an agreement, the term "Disability" shall mean a physical or mental infirmity which impairs the Participant's ability to substantially perform his or her duties for a period of 180 consecutive days. Control Event: See below.
Change of Control	Control Event: If the Company undergoes a Control Event, any unvested Time-Based Awards and Performance-Based Awards held by the Participant will become fully vested. Any Awards that have not vested as of the date of any Control Event will become fully vested upon the occurrence of such Control Event to the extent that the performance thresholds applicable to such Awards are met as of the date of the Control Event, as determined by the Administrator in its reasonable discretion.

The following tables set out the key terms that will govern granting of STI and LTI Awards as well as applicable conditions, which apply to CY18 offers.

CY18 STI Award Offer Terms & Conditions

Summary of Planned Short-Term Incentive Awards	
Aspect	**Terms & Conditions**
Purpose	The purpose in offering STI Awards is to: • give effect to an element of a market competitive remuneration package for all eligible employee in accordance with the Company's remuneration policy, and align with market practices, particularly in the very competitive US employment market for the petroleum industry, • to provide a focus on the personal and operating inputs to Company achieving external financial performance outcomes, • to provide a clear link between Company performance and an employee's variable pay that represents both "upside" (incentive) and "downside" (at-risk pay) around the Target Remuneration Package (TRP), thus sharing the risk and rewards of Company performance with Shareholders, including reducing the cost of executive remuneration when Company financial performance has not met expectations, and • to encourage team work and cooperation amongst all employees over the short term, in creating value for shareholders.
Measurement Period	Calendar 12 months with CY18 STI Awards to be determined for performance over the 12 months commencing 1 January 2018.
STI Participation Percentage & STI Award Determination	Each Participant be allocated a STI Participation Percentage. This STI Participation Percentage will be multiplied by the Participant's Fixed Annual Remuneration (FAR) or Base Package to establish the Target level STI Award that will apply to that Participant. The STI Award actually granted will be a percentage of that Target value based on the assessed performance rating for that Participant as described in the next table row. The CY18 STI Participation Percentages range from 100% down to 10%. Mr. James Piccone is the only current KMP eligible to receive an STI performance-based award for calendar year 2018 since the other KMPs will not join the new plan until 2019. Mr. Piccone's employment agreement provides that his assigned CY18 Participant STI Percentage is 100%.
Participant STI Performance Rating Assessment	STI awards are to be assessed on a 50%/50% mixture of personal KPI's and Company performance measures. Personal performance will be determined based on individual performance against tailored goals set at the beginning of the year relative to that employee's personal growth as well as their contribution to Company performance. The list of STI operating metrics does not include any direct financial metrics since the CY18 Performance Awards to be granted to KMPs are focused on financial performance to generate a sustained increase in the Company's Share price. The Board has elected to keep the STI incentives strongly aligned with field operations (safety, production and expenses), capital development and Administrative overhead expense (G&A). The following table indicates the weightings of the Company performance metrics for CY18 as a percentage of the Company Performance portion: (see KPI table below) The Board selected measures expected to drive economic profitability within a financial year period, and ultimately shareholder value creation over the short and long-term. The performance ranges for each KPI were calibrated with reference to the Company's annual operating Plan and Budget and policy of differentiating between threshold, target and stretch levels of performance, but generally reflecting probabilities of achieving Threshold level with an achievement probability 80-90%, Target at 50-60%, and Stretch at 10-20%.
Award Opportunities	For CY18 STI Awards, the Threshold Award will be set at the equivalent to 50% of the Target Award, achieving Target performance will yield STI Award at 100% of the Target Award, and the maximum/Stretch opportunity will payout at 150% of the Target award, subject to a "gate' or overall "cap" as described below.

KPI	**Weighting**
EH&S	15%
Oil and Gas Production	25%
Capital Deployment	30%
Lease Operating Expense (LOE)	20%
G&A Expense	10%
Total	**100%**

Award Determination and Payment	Calculations are performed following the end of the 1-year Measurement Period. Awards will be paid in cash as soon as possible following the end of the Measurement Period.
"Gate" or "Cap" on Payment of Awards	The Board has set a total STI budget limit at 120% of the budget base remuneration for all employees under its proposed new plan. This is a total annual STI award cap and not necessarily an individual cap.
Cessation of Employment During a Measurement Period	An employee must be employed on the date the STI payments are made to be entitled to receive an STI payment unless determined otherwise by the Board (in the case of the MD, or management or as required by contract or law).

CY18 LTI Award Offer Terms & Conditions

Summary of Planned Long-Term Incentive Awards	
Aspect	**Offer Terms and Conditions**
Purpose	The LTI Award's purpose is to: • provide an element of a market competitive remuneration package for all employees in accordance with the remuneration policy, and aligned with market practices, • to provide a clear time-based incentive to retain employees at all levels of the Company's very recently expanded work force and retain their involvement in operating and overseeing the Company's business across a diverse range of assets and corporate arrangements. Retention of the core team is seen as an important need for the Company as it consolidates its business and balance sheet. Time-based LTI awards also provide indirect incentives for employees to improve the drivers of share value, • to provide a performance-based incentive to motivate the Company's KMP's and, possibly in the future, some of the Company's other most senior executives. Alignment of interests between KMPs and Shareholders will be best achieved by Company performance that generates sustained value growth for Shareholders. For CY18 awards, the Board has chosen to provide such motivation through performance-based Awards linked to a combination of increases in Share price (or TSR) and relative TSR comparing the Company's TSR versus those of a peer group, • this combination of TSR and RTSR will recognize performance even when the industry is influenced by external factors, such as negative industry or market events or large positive or negative movements in oil and gas prices, • to encourage team work and cooperation amongst the KMPs over the long-term, in creating value for shareholders, and • to provide the Company's key decision-makers with funding to acquire material holdings in the Company over the long term.
Form of Equity	The LTI Awards (for CY18) will be paid in cash with a requirement for deducting withholding taxes applicable under the relevant tax laws and regulations. Consideration will be given, when deciding on the form of "payment" to meet the Company's obligations against vested LTI awards, to making such payments partly or wholly by way of rights to Shares (Rights). If, and when, such a change is proposed, Shareholder approval will be sought and information as to the related terms and conditions in regard to such Rights provided to Shareholders.
Determination of Awards to be Granted each year	The Board will determine the level of Awards to be offered each year to eligible employees, subject to any relevant shareholder approval in relation to Related Parties under the ASX Listing Rules and Financial Benefits to Related Parties under the Corporations Act 2001 or in relation to any matter for which separate Shareholder approval is sought by the Board. For CY18 Awards: 1. Each employee has been allocated an LTI Participation Percentage which will be multiplied by their Base Salary Package to establish the Target US dollar value for determination of their annual LTI award of time-based and performance-based awards. Awards are fixed in value until the Company share price exceeds A$ 0.11, and then increase in value as the share price increases to provide an equity equivalent incentive above that price. If the Company share price increases above A$ 0.11, the value of each award will be increased in value by the US dollar equivalent of the amount of such increase in share price. 2. For eligible employees (other than KMPs), 100% of the award value as calculated in 1. above are granted as time-based awards; time-based awards will vest 1/3rd annually over three years in equal annual amounts. 3. For KMPs, 50% of the Target LTI award value as calculated in 1. above will be granted as time-vesting awards and 50% of the award value as calculated in 1. above will be granted as performance-based awards; again with annual 1/3rd vesting against a combination of increasing Share prices (or TSR) hurdles and RTSR percentile hurdles based on the TSRs for a peer group of companies. Pay-out levels are shown in the "Vesting Conditions" section below. Performance based awards attain value only if and to the extent the performance hurdles are met.
Participant LTI Percentages	Participant LTI Percentages applied for CY18 awards range from 300% down to 10%. It is expected the top end of this range will increase with the inclusion of the MD/CEO and other KMP's in the CY19 Award grants. Mr. James Piccone is the only KMP eligible to receive LTI time-base and performance-based awards for calendar year 2018 since the other KMPs will not join the new plan until 2019. Mr. Piccone's employment agreement provides that his assigned CY18 LTI Participant Percentage is 300%; this agreement also states he will receive 2 x the value of this award in the first year of his employment; this additional 300% LTI award quota is considered akin to a sign-on bonus and not indicative of LTI percentages to apply to Mr. Piccone or other KMPs in future year grants.
Measurement Period	The Measurement Period for CY18 LTI Awards will cover the three calendar years CY18/CY19/C20. For time-based and performance-based awards there will be intervening annual assessments and 1/3rd vesting as a function of relevant performance hurdles.
Vesting Conditions	Awards will have a fixed value until the Company share price equals A$ 0.11, and then will increase in value as provided above. Vesting conditions will be set for each annual round of performance-based award grants. The vesting conditions must be satisfied for awards to vest. Awards that do not vest will lapse automatically if there is no further opportunity for them to vest. All rights vest 1/3rd each year of the 3-year Measurement Period.

The performance-based awards vesting hurdles, which are based on a combination of Share Price (or TSR) and relative TST (RTSR) are shown below for the 3 annual tranches of Award entitlements to be considered each year for vesting.

The table shows the percentages of the Target performance-based award that would vest upon the achievement of various Share Price (or TSR) and RTSR hurdles.

Share price (or TSR) has been chosen as one of two measures for this performance-based award since it has a direct alignment with shareholders. The Share price (or TSR) hurdles have been anchored at a minimum Threshold Share price of A$0.11, which is just above the A$0.103 conversion share price of the Company's convertible loan notes, and which is 76% above the 30 days VWAP of A$0.0625 at the start of the 1st year of the CY18 LTI awards. At the other end of the spectrum, the 3-year "stretch" share price is tied to a compound TSR of 30% pa, which yields the stretch hurdle share price after 3 years of A$0.2417.

The second performance measure to be used for assessing performance-based awards is relative TSR (RTSR). This measure quantifies the relativity of the Company's TSR over a given period to the TSRs of a peer group of companies. ELK's relative position is expressed as a percentile rating up to 100% (the 100th percentile) if the Company's TSR is top of the peer group TSRs. The payout levels against the combination of Share Price (or TSR) and RTR are shown in the table below:

PROPOSED TSR PERFORMANCE HURDLE AND AWARD MULTIPLE MATRIX

		ABSOLUTE SHARE PRICE		
	Share price (AUD)			
	Year 1	0.1100	0.1320	0.1430
Annual Compound TSR after Year 1 (Greater than)		**10%**	**20%**	**30%**
	Share price (AUD)			
	Year 2	0.121	0.1584	0.1859
	Year 3	0.1331	0.19008	0.24167
RELATIVE TSR PERFORMANCE	**>= 33rd %ile**	50%	75%	100%
	>= 50th %ile	75%	113%	150%
	99thth %ile	100%	150%	200%

Percentage numbers represent percentage multiplier applied to base performance award number
No award achievement until meet requirements for cell with positive number
Pro rata vertically and horizontally between cell points with positive number
Failure to achieve vesting of any award allows such award to be rolled over and tested at subsequent vesting date
Any award that does not vest by the third anniversary of the effective date of the grant is forfeited

As an example, if at the end of year 1 the Company's share price was A$0.11 and the Company's TSR over that year placed it at the 50th percentile level of the TSR's for the peer group over the same period, then the vested award would be 75% of 1/3rd (1st year of annual vesting over 3 years) of the Target LTI Award value calculated as set out under "Determination of Awards to be Granted each year" in the table above.

It should be noted that for exceptional performance against its peers as measured by achieving a RTSR rating at the 99th percentile in combination with achieving a compound growth rate in share price or absolute TSR at or above 305% pa will be rewarded by a vested performance-based award at 200% of the Target award level over the relevant period. Shareholders should have experienced a material lift in the value of their holdings if such performance is achieved.

Retesting	Whatever portion of an annual tranche that does not vest at the end of the applicable performance period will roll forward to the following test years for potential vesting if performance requirements are met.
Plan Gate & Board Discretion	Hurdles will be reset for each annual Award Agreement. This resetting will provide opportunity to consider changes in performance context. It will also allow the Board to consider movement to meeting, partly or wholly, vesting obligations by way of the issue of rights to Shares rather than paying awards all in cash. The Board will have discretion to defer part-payment of cash LTI awards due to KMPs and senior executives if the Board judges such deferral is prudent in terms of the Company's cash flow outlook on the basis that the payment of such LTI awards at that time would have a material adverse effect on the Company's ability to meet its other obligation as and when due. Such deferral shall only continue for so long as the satisfaction of such LTI award continues to have such effect on the Company's cash flow outlook. In such case the deferred LTI award will be treated as an ongoing obligation of the Company accruing interest at a rate equivalent to the Company's on-going third-party debt cost.
Vesting and Lapse	Under the plan rules, time-based and performance-based awards vest automatically when relevant hurdles and conditions are met. Awards that do not vest by the end of a 3-year Award Agreement period lapse.

Disposal Restrictions etc.	Awards may not be disposed of or otherwise dealt with while they remain Awards, i.e. prior to vesting. The Plan provides for the Company to include a 2-year holding lock on Shares issued to Australian employees that vest under the Plan.

Estimates of the value of LTI Awards to be granted under the planned CY18 Award Agreements are set out in Section 7(a).

4.12.3 Non-Executive Director and Adviser Plan

Non-Executive Director and Adviser Plan (NEDA)	
Aspect	**Plan Rules, Invitations and Comments**
Purpose	The LTI Plan's purpose is to increase the motivation of Non-executive Directors and Advisers (NEDA Eligible Persons) and create a stronger link between increasing Shareholder value and Non-executive Director and adviser reward. While it is recognised that the awarding of performance related equity to NEDs may be an unusual practice in mature businesses, the Board takes the view that it is appropriate to the transitional and transformation nature of the Company at this time, and the granting of equity to Elk's directors allows for cash costs to be minimised as well as aligning their interests with shareholders.
Form of Equity	The plan rules include the ability to grant: • Performance Rights, which are subject to performance related vesting conditions, for the purposes of the NEDA, and • Retention Rights, which are subject to service related vesting conditions. The NEDA is based on grants of Performance Rights. The rights are Indeterminate Rights, if the vested rights value for a tranche is more than $1,000 then the participant will be entitled to shares, with the first $1,000 being paid in cash. The Shares resulting from the exercising of Rights may be issued or acquired on-market, at the Board's discretion. No dividends accrue to unvested Rights, and no voting rights are attached.
LTI Value	When Offers are made to Eligible Non-Executive Directors and/or Advisers they will be advised of the number of Retention and/or Performance Rights that they are to be granted. The number of Rights offered to a Participant shall be determined by the Board in its absolute discretion. The Board may apply a method of calculation such as follows: **Retention Rights:** **Participant's Base Fees x Equity % ÷ Right Value** **Performance Rights:** **Participant's Base fees x Equity % ÷ Adjusted Right Value** For non-executive directors, their Equity % is currently set at 40% for calculation of both Retention Rights and Performance Rights. The total number of Rights that can be issued under the currently approved 3-year NEDA Plan is subject to the limit imposed by the currently approved number of Shares for issue to each NED under the NEDA Plan. For the calculation of the number of Performance Rights, the Adjusted Right Value is equal to Right Value multiplied by the probability of vesting (which is currently assessed at 60%). The total number of Rights that can be issued on a combined basis under the remaining NEDA Plan capacity, as approved by shareholders in November 2017, is 11,400,000.
Measurement Period	The Measurement Period will include three financial years unless otherwise determined by the Board (which would only apply in exceptional circumstances). 3-year Measurement Periods combined with annual grants will produce overlapping cycles that will promote a focus on producing long term sustainable performance/value improvement and mitigates the risk of manipulation and short-termism (continuous improvement); each financial year end will see the beginning, middle and end of three different grants.
Vesting Conditions	The Board has discretion to set vesting conditions for each Invitation. The vesting conditions must be satisfied for Rights to vest, and Performance Rights that do not vest will lapse automatically if there is no further opportunity for them to vest. Current vesting conditions applicable to the Performance Rights are based on Absolute Total Shareholder Return (ATSR): The current vesting scale is as follows: (see table below) TSR is the sum of Share price appreciation and dividends (assumed to be reinvested in Shares) during the Measurement Period. It is annualised for the purposes of the above vesting scale. The company's TSR at the end of the Measurement Period will be calculated up to and including the last day of the Measurement Period. CAGR is compound annual growth rate (annualised). The Retention Rights have a continued service vesting condition only.

Performance Level	**ATSR of the Company as Compound Annual Growth Rate (CAGR)**	**Vesting % of Max/Tranche/ Stretch**
Stretch	≥ 15% CAGR	100%
Between Target and Stretch	>15% CAGR and < 10% CAGR	Pro-rata
Target	10% CAGR	50%
Between Threshold and Target	>10% CAGR and < 5% CAGR	Pro-rata
Threshold	=5% CAGR	25%
Below Threshold	<5% CAGR	0%

Retesting	Typically rights that do not vest at the end of the measurement period will automatically lapse.
Amount Payable for Performance Rights	No amount is payable by participants for Performance Rights. The target value of Rights is included in assessments of remuneration benchmarking and policy positioning. This is standard market practice and consistent with the nature of Performance Rights.
Exercise of Vested Performance Rights	Under the plan rules, vested Performance Rights are exercised automatically following vesting. Rights that are nor exercised, lapse. If the value of the vested rights is over $1,000 then the subsequent amount will be settled in shares (with the first $1,000 payable through payroll).
Disposal Restrictions etc.	Rights may not be disposed of or otherwise dealt with while they remain Rights i.e. prior to exercise.
Cessation of Employment	If Cessation of Directorship is due to death, total permanent disablement, retirement with Board approval or failure to be re-elected as a Director the Retention Rights granted in the financial year of termination of service are forfeited in the same proportion as the remainder of the financial year bears to the full financial year. Rights that do not lapse will continue to be held by the Participant for testing at the end of the Measurement Period. If the share price at testing is less than at termination of employment all Rights lapse. If Cessation of Directorship is due to resignation, then all Rights whether vested or not shall be forfeited unless and to the extent otherwise determined by the Board.
Change of Control of the Company	In the event of a Change of Control including a takeover, the holder of the Rights has the option to either: a. the Rights become due and payable in cash within 30-days following the completion of the event of change in control or takeover. In determining the cash value of the outstanding Retention and Performance Rights Awards, the share price applicable to determining the cash value to be paid to the participant is the higher of (1) in the case of change of control the value of Shares in the Company based upon the last 20 trading days VWAP before the completion of the event of change in control or (2) in the case of a change of control resulting from a takeover bid or scheme of arrangement the offer price per share of the Company provided for in such takeover bid or scheme of arrangement; or b. subject to shareholder approval if required, accept the takeover company shares offer in the form of takeover shares on the same terms as provided in the takeover offer proposal on the Shares.

5 FY18 Realised Base Remuneration Plus Consequential Vested/Awarded Incentives and Remuneration Outcomes in Respect of the Completed FY18 Period (non-statutory disclosure)

a. 2018 Awards (25%) under the Current EPI Plan

The statutory disclosure requirements and accounting standards make it difficult for shareholders to obtain a clear understanding of what the actual remuneration outcomes for the KMPs were in relation to a given reporting period. It should be noted that typically STI for a reporting period is paid after the end of the financial year/reporting period, following audit, and that LTI vesting is similarly delayed, and therefore statutory reporting involves the mixing of remuneration paid in respect of typically several financial years. The following table relates the KMPs incentive awards to the 2017-18 reporting year of performance/work to which the incentive award outcome relates, and which is the current reporting period i.e. STI and LTI awards are presented as being part of the remuneration for the 2017-18 year, for which performance was tested. The 2018 STI and LTI awards reflect the 25% of the assessed incentives applicable under the normal plan rules. The 75% Deferred Awards are dealt with in the following Section 5(b).

Name	Role(s)	Year	Base Package, Including Super		Total STI Awarded Following Completion of FY18 (cash)		Value of LTI that Vested (25%) Following Completion of FY18		Total Remuneration Package (TRP)*, USD
			Amount, USD	% of TRP	Amount, USD	% of TRP	Amount, USD	% of TRP	
Bradley Lingo	Managing Director and Chief Executive Officer, Elk Petroleum Limited, Sydney	2018	$387,650	55%	$85,111	12%	$228,532	33%	$701,293
Alexander Hunter	Chief Financial Officer, Elk Petroleum Limited, Sydney	2018	$290,738	80%	$17,022	5%	$55,554	15%	$363,314
David Evans	Chief Geologist, Elk Petroleum Limited, Sydney	2018	$233,520	76%	$17,022	6%	$55,554	18%	$306,096
J. Scott Hornafius	Vice-Pesident, Business Devlopment, Elk Petroleum Inc. Denver (ceased employment on 5 May 2018)	2018	$281,140	83%	$14,185	4%	$41,960	12%	$337,285
Brian Dolan	Chief Operating Officer, Elk Petroleum Inc., Denver	2018	$277,268	79%	$17,022	6%	$55,554	20%	$349,844

*The FY18 TRP excludes the 75% Deferred Awards for which timing is expected to be finalised in FY19 but timing still remains to be determined; The Quantums of the Deferred Awards are dealt with in the following section.

b. "Deferred Awards"

Details regarding the assessments of performance that gave rise to the 75% "Deferred Awards" for FY18 are given below. The 75% can be changed on board discretion.

The following table reflects the assessed Deferred Awards subject to future determinations:

Name	Role(s)	Year	Deferred Unvested STI Award Value that is subject to 6 monthly redetermination, USD	Deferred Unvested LTI Award Value that is subject to 6 monthly redetermination, USD
Bradley Lingo	Managing Director and Chief Executive Officer, Elk Petroleum Limited, Sydney	2018	$243,411	$653,585
Alexander Hunter	Chief Financial Officer, Elk Petroleum Limited, Sydney	2018	$48,682	$158,880
David Evans	Chief Geologist, Elk Petroleum Limited, Sydney	2018	$48,682	$158,880
J. Scott Hornafius	Vice-Pesident, Business Devlopment, Elk Petroleum Inc. Denver (ceased employment on 5 May 2018)	2018	$40,568	$120,003
Brian Dolan	Chief Operating Officer, Elk Petroleum Inc., Denver	2018	$48,682	$158,880

No Base Package is included in the above table since the timing for determining the grant of the Deferred Awards is uncertain and the Board is considering changing its report year to a calendar year basis with a start as early as 1 January 2019, subject to regulatory approval. The above values can be added to the TRP's in the 2018 Award table in the prior section to give a fuller representation of the full benefits that can be tagged as sourcing from the KMPs efforts in 2017-18.

c. "2H18 Transition Awards" (KMPs)

Name	Role(s)	Year	2H18 Transtion Award Value that is subject to 6 monthly redetermination, USD
Bradley Lingo	Managing Director and Chief Executive Officer, Elk Petroleum Limited, Sydney	2018	$379,026
Alexander Hunter	Chief Financial Officer, Elk Petroleum Limited, Sydney	2018	$75,805
David Evans	Chief Geologist, Elk Petroleum Limited, Sydney	2018	$75,805
J. Scott Hornafius	Vice-Pesident, Business Devlopment, Elk Petroleum Inc. Denver (ceased employment on 5 May 2018)	2018	$0
Brian Dolan	Chief Operating Officer, Elk Petroleum Inc., Denver	2018	$0

It is expected that the above 2H18 Transition Awards would be paid in CY19 if cash flow and financial management performance conditions permit.

6 Performance Outcomes for FY18

The following outlines the performance of the Company over the FY18 period and the preceding 4 financial years in accordance with the requirements of the Corporations Act:

FY18 revenue is US$94.8 million

FY End Date	Revenue (k)	Profit After Tax (k)	Share Price	Change in Share Price	Dividends*	Short Term Change in Shareholder Value Over 1 Year (SP Increase + Dividends)		Long Term (Cumulative) 3 years Change in Shareholder Value		3 Yr Total Return (dividends assumed to be reinvested)
						Amount	%	Amount	%	
30-Jun-18	US$95,120	(US$109,004)	A$0.079	A$0.013	n/a	A$0.013	19.70%	A$0.06	244.98%	244.98%
30-Jun-17	US$4,965	(US$8,118)	A$0.066	(A$0.007)	n/a	(A$0.007)	(9.59%)	(A$0.03)	(34.52%)	(34.52%)
30-Jun-16	US$44	(US$5,224)	A$0.073	A$0.050	n/a	A$0.050	217.39%	n/a	n/a	n/a
30-Jun-15	A$42	(A$3,646)	A$0.023	(A$0.078)	n/a	(A$0.078)	(77.23%)	n/a	n/a	n/a
30-Jun-14	A$340	(A$7,347)	A$0.101	-	n/a	n/a	n/a	n/a	n/a	n/a

* Dividends used are the cash amount (Post Franking)

Market data is sourced from Bloomberg

The following Annual Production and PDP Reserves growth rates were achieved during FY18:

- Growth in Annual Production: Annual production of 2,636,373 mmboe – an increase of 2,254,223 mmboe or +589% increase.
- Growth in YE PDP Reserves: YE PDP of 27.8 million boe – an increase of 16.6 million boe.
- Average LOE over FY18 = US$18.14/boe

The following Annual Production and PDP Reserves growth rates were achieved during FY17:

- Growth in Annual Production: 382,150 boe
- Growth in YE PDP Reserves: 11.2 million boe.

- Average LOE over FY17 = US$9.97/boe

Impact of Board Discretion and/or Normalisation on Incentives

As mentioned previously in this report, during FY18 the Board exercised its discretion under the EPI Plan Rules to modify the Plan Rules and to defer 75% of the assessed STI and LTI incentive values. This was done to ensure alignment with the reward experiences of shareholders and to improve management of the Company's cash flow and financial performance.

7 Planned/Target Executive Remuneration for CY18 and CY19 under the New Plan (non-statutory disclosure)

a. Indicative CY18 Awards based on Achieving Target Outcomes

The following tables are provided to ensure that shareholders have a good understanding of the Board's intention regarding the remuneration offered under its new incentives plan. The data presents an outlook based on individuals and the Company performing at target or mid-range probability levels for CY18 STI and LTI Awards. Generally, there are opportunities for incentives to exceed the target or mid-range award levels assumed here, as discussed in the Section 4.12; however, awards at the stretch/maximum levels are designed to be far less likely (P10-20%) to occur than the Target level (P50-60%).

Incumbent	CY18 Base Package includig Super Amount, USD	Base % TRP	STI Opportunity		STI % TRP	LTI Performance		LTI %TRP
			Target % of Base Package	Target STI Amount*,USD		Target % of Base Package	Target LTI Amount*,USD	
James Piccone	$375,000	20%	100%	$375,000	20%	300%	$1,125,000	60%

**STI and LTI Awards could be higher if actual performance is at stretch or maximum levels; if max performances are achieved, Mr Piccone's TRP would rise to a stretch maximum of US$2,625,000. Note the above LTI Target Award of US$1.125 million would be paid out over the 3-year CY18 plan period as would any other awards.*

It should be noted that Mr Piccone will also receive sign-on or like bonuses of (i) 4,500,000 Shares subject to Shareholder approval at the 2018 AGM (previously announced at the time of Mr Piccone's employment in January 2019), and (ii) an additional award identical to the LTI Opportunity shown above with the cash amounts equivalent in value to the assessed actual annual vested values under his CY18 LTI Award [these amounts will remain uncertain until realised over the 3-year CY18 plan period]. For a Target level performance-based award achievement, this uplift would increase Mr Piccone's TRP by a further US$1,125 million, plus any increase in value due to a Company share price exceeding A$0.11, spread over 3 years, the same as the Target level LTI award shown in the above table. This initial sign-on LTI uplift only applies to Mr Piccone's CY18 Award].

Mr Piccone's Target level STI award is set at US$375,000. The total CY18 budgeted STI pay-out for achieving 100% of Target level outcomes is approximately US$3 million, which can be compared to the Company's budgeted CY18 Salaries and Wages total of US$10.1 million.

LTI Awards will be made to all eligible employees. A summary of the total LTI Awards at for Target level outcomes can be made over the 3 years covered by the CY18 LTI Awards is set out below.

	CY18 LTI Awards a 100% of Target Award Level, USD			
Group	Time-vested	Performance -Vested	Sign-On Award*	Total vested annually over 3 years
KMPs(1)	$562,500	$562,500	$1,125,000	$2,250,000
Sneior Executives (8)	$1,472,500			$1,472,500
Other Eligible Employees	$1,664,282			$1,664,282
Totals	$3,699,282	$562,500	$1,125,000	$5,386,782

* LTI Portion, excludes STI portion

The above total of US$5.4 million (or US$4.2 million after excluding Mr Piccone's Sign On LTI Award componenet) can be compared to the Company's 2018 budgeted total costs for Salaries & Wages plus STI Awards of approximatley US13 million. Note the amounts shown in the table will increase if the Compny's share price exceeds A$0.11.

To give some context to the alignment of maximum possible employee LTI awards and consequent Shareholder rewards, at maximum or stretch level LTI outcomes, all eligible employees, including KMPs and senior executives would receive approximately US$7 million over the 3 year plan period, Shareholders would see the Company's market capitalisation increase by approximately US$220 million (A$290 million) if the Share price reached A$0.2417 (~US$0.18).

The above values show that Shareholders receive significant benefit from the employees' efforts. It is noted that the figures only show the employee outcomes for Target level CY18 Award performances over the 3-year Measurement Period of the CY18 Awards. Over the same 3-yer periods, it is possible the employees will receive part benefits from the CY19 (over 2 years) and CY20 Awards (over 1 year); however even considering a 1x or 2x increase above the employees' CY18 maximum benefits, Shareholders will receive a very large increase in the value of their holding relative to the rewards possible to employees.

Experience in setting annual STI and LTI performance hurdles and in comparing them to actual outcomes will be used to refine the process for setting such hurdles to improve the match of US remuneration award benchmarks against the probabilities of outcome achievements that characterise US industry benchmarks: i.e. 80-90% probability of achieving Threshold levels and rewarded at 50% of Target level awards typical of budgeted plan levels, 50-60% probability of achieving Target levels and rewarded at 100% of Target levels awards, and 10-20% probability of achieving Stretch levels and rewarded at 150%(STI), 100% on time-vested LTI awards and 200% on performance-vested awards.

b. CY19 Awards

The terms and conditions for each annual round of offers under the new plan will be different to the extent that terms and conditions for associated STI and LTI performance assessment criteria will be reset in the context of then-prevailing conditions. The Company favours stability in the general plan structure but can vary terms and conditions for each annual Award Agreement offered to eligible employees.

For CY19, current EPI Plan participants will move to be covered by the new incentives plan from 1 January 2019. This change will increase the number of KMPs covered under the new plan. This change will likely increase the total potential value of the CY19 Awards.

Changes in KMP Held Equity

The following table outlines the changes in the amount of equity held by executives over the financial year:

Name	Instrument	Number Held at Open 2018	Granted FY 18		Forfeited		Vested	Purchased/ Other	Number Held at Close 2018
		Number	Date Granted	Number	Date Granted	Number	Number	Number	Number
Bradley Lingo	Ordinary Shares	13,173,836	-	-		-	5,379,856	354,592	18,908,284
	Options	-	-	-		-	-	-	-
	Performance Rights	-	-	-		-	-	-	-
	Retention Rights	-	-	-		-	-	-	-
Alexander Hunter	Ordinary Shares	150,000		-		-	1,813,335	(424,000)	1,539,335
	Options	-	-	-		-	-	-	-
	Performance Rights	-	-	-		-	-	-	-
	Retention Rights	-	-	-		-	-	-	-
David Evans	Ordinary Shares	200,000	-	-		-	1,813,335	-	2,013,335
	Options	-	-	-		-	-	-	-
	Performance Rights	-	-	-		-	-	-	-
	Retention Rights	-	-	-		-	-	-	-
David Franks	Ordinary Shares	1,750,000	-	-		-	-	-	1,750,000
	Options	-	-	-		-	-	-	-
	Performance Rights	2,350,000	08-December-2017	1,300,000	30/6/16	(250,000)	-	-	3,400,000
	Retention Rights	-	-	-		-	-	-	-
Andrew Bursill	Ordinary Shares	-	-	-		-	-	-	-
	Options	-	-	-		-	-	-	-
	Performance Rights	-	-	-		-	-	-	-
	Retention Rights	-	-	-		-	-	-	-
J. Scott Hornafius	Ordinary Shares	235,408	-	-		-	-	-	235,408
	Options	-	-	-		-	-	-	-
	Performance Rights	3,710,757	-	-	400,000 on 30/6/16 // 1,310,757 on 5/9/2014 // 2,000,000 on 30/11/2013	(3,710,757)	-	-	-
	Retention Rights	-	-	-		-	-	-	-
Brian Dolan	Ordinary Shares	494,307	-	-		-	-	-	494,307
	Options	-		-		-	-	-	-
	Performance Rights	400,000		-	30/6/16	(400,000)	-	-	-
	Retention Rights	70,000		-	30/6/16	(70,000)	-	-	-
James Piccone	Ordinary Shares	-	-	-		-	-	-	-
	Options	-	-	-		-	-	-	-
	Performance Rights	-	-	-		-	-	-	-
	Retention Rights	-	-	-		-	-	-	-
TOTALS - Ordinary Shares		16,003,551		-		-	9,006,526	(69,408)	24,940,669
TOTALS - Options		-		-		-	-	-	-
TOTALS - Performance Rights		6,460,757		1,300,000		- 4,360,757	-	-	3,400,000
TOTALS - Retention Rights		70,000		-		(70,000)	-	-	-

The following table outlines the changes in the amount of equity held by non-executive directors over the financial year:

Name	Instrument	Number Held at Open 2018	Granted FY 18		Forfeited		Vested	Purchased/ Other	Number Held at Close 2018
		Number	Date Granted	Number	Date Granted	Number	Number	Number	Number
Neale Taylor	Ordinary Shares	1,254,078		-		-	26,742	175,700	1,456,520
	Options	50,000		-	23/7/2014	(50,000)	-	-	-
	Performance Rights	804,000	08-December-2017	1,125,000	30/6/16	(340,000)	-	-	1,589,000
	Retention Rights	272,000	08-December-2017	675,000	30/6/16	(40,000)	-	-	907,000
Russell Krause	Ordinary Shares	-		-		-	6,742	-	6,742
	Options	-		-		-	-	-	-
	Performance Rights	272,000	08-December-2017	625,000	30/6/16	(40,000)	-	-	857,000
	Retention Rights	136,000	08-December-2017	375,000	30/6/16	(20,000)	-	-	491,000
Timothy Hargreaves	Ordinary Shares	9,192,397					6,742	1,000,000	10,199,139
	Options	833,333			23/7/2014	(833,333)			-
	Performance Rights	272,000	08-December-2017	625,000	30/6/16	(40,000)			857,000
	Retention Rights	136,000	08-December-2017	375,000	30/6/16	(20,000)			491,000
TOTALS - Ordinary Shares		10,446,475		-		-	40,226	1,175,700	11,662,401
TOTALS - Options		883,333		-		(883,333)	-	-	-
TOTALS - Performance Rights		1,348,000		2,375,000		(420,000)	-	-	3,303,000
TOTALS - Retention Rights		544,000		1,425,000		(80,000)	-	-	1,889,000

The following table outlines the value of equity granted during the year that may be realised in the future:

Shares under option Unissued ordinary shares of Elk Petroleum Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise Price (A$)	Number Under Rights
22-06-17	30-04-20	0.08	4,250,000
22-06-17	30-04-20	0.10	4,250,000
22-06-17	30-04-20	0.11	4,250,000
22-06-17	30-04-20	0.12	4,250,000
			17,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Elk Petroleum Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Fair Value at Grant date (A$)	Number Under Rights
20-12-2016*	30-06-19	0.0465	4,260,000
08-12-2017*	30-06-19	0.0320	4,675,000
			8,935,000

* Rights granted to Neale Taylor, Russel Krause,Tim Hargreaves, David Franks and other non KMP's

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

Shares under retention rights

Unissued ordinary shares of Elk Petroleum Limited under retention rights at the date of this report are as follows:

Grant date	Expiry date	Fair Value at Grant date (A$)	Number Under Rights
20-12-2016**	30-06-19	0.0776	475,000
08-12-2017***	30-06-20	0.0640	1,425,000
			1,900,000

** Rights granted to Neale Taylor, Russel Krause, Tim Hargreaves and other non KMP's

*** Rights granted to Neale Taylor, Russel Krause, Tim Hargreaves

No person entitled to exercise the retention rights had or has any right by virtue of the retention right to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Elk Petroleum Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of options granted:

Grant date	Exercise Price (A$)	Number Under Rights
01-04-16	0.075	1,333,333

Shares issued on the exercise of performance rights

There were no ordinary shares of Elk Petroleum Limited issued on the exercise of performance rights during the year ended 30 June 2018 and up to the date of this report.

Shares issued on the exercise of retention rights

The following ordinary shares of Elk Petroleum Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of retention rights granted:

Grant date	Expiry date	Fair Value at Grant date (A$)	Number off rights vested	Number of shares issued
01-07-16*	30-06-18	0.08232	183,595	108,710

* Rights granted to Neale Taylor, Russel Krause, Tim Hargreaves, Brian Dolan and other non KMP's

8 NED Fee Policy Rates for FY18 and FY19, and Aggregate Fee Limit (AFL)

Non-executive director fees are managed within the current annual fees limit (AFL or fee pool) of A$350,000 which was approved by shareholders on 29th November 2013.

The following table outlines the NED fee policy rates that were applicable as at the end of FY18:

Function	Role	Fee Including Super
Main Board*	Chair	A$108,000
	Member	A$60,000

* Additional fees are currently not paid for being a member of a committee

The same fee policy rates are applicable for FY19 as at the time of writing of this report. The fee policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed.

Grants of equity approved by shareholders in respect of non-executive directors do not count towards the fee limit or pool.

9 Remuneration Records for FY18 – Statutory Disclosures

9.1 Senior Executive Remuneration

The following table outlines the remuneration received by Senior Executives of the Company during FY18 and the previous year, prepared according to statutory disclosure requirements and applicable accounting standards:

Name	Role(s)	Year	Salary	Superannuation Contributions	Other Benefits	Base Package		Cash Bonus*		Equity settled**		Termination Benefits	Change in Accrued Leave	Total Remuneration Package (TRP)
						Amount	% of TRP	Amount	% of TRP	Amount	% of TRP			
Bradley Lingo	Managing Director and Chief Executive Officer	2018	$372,919	$14,731	$0	$387,650	46%	$114,572	13%	$228,532	27%	$0	$119,069	$849,823
	Managing Director and Chief Executive Officer	2017	$274,045	$21,881	$0	$295,926	29%	$97,897	10%	$563,829	56%	$0	$48,323	$1,005,975
Alexander Hunter	Chief Financial Officer, Sydney	2018	$275,194	$15,544	$0	$290,738	73%	$17,022	4%	$55,554	14%	$0	$32,969	$396,283
	Chief Financial Officer, Sydney	2017	$211,550	$14,800	$0	$226,350	59%	$42,290	11%	$94,356	25%	$0	$19,944	$382,940
David Evans	Chief Operating Officer, Sydney	2018	$217,046	$15,544	$930	$233,520	71%	$17,022	5%	$55,554	17%	$0	$22,506	$328,602
	Chief Operating Officer, Sydney	2017	$211,550	$14,800	$0	$226,350	65%	$4,565	1%	$94,356	27%	$0	$21,673	$346,944
David Franks***	Joint Company Secretary	2018	$0	$0	$0	$0	0%	$0	0%	$17,086	100%	$0	$0	$17,086
	Joint Company Secretary	2017	$0	$0	$0	$0	0%	$0	0%	$16,627	100%	$0	$0	$16,627
Andrew Bursill***	Joint Company Secretary	2018	$0	$0	$0	$0	0%	$0	0%	$0	0%	$0	$0	$0
	Joint Company Secretary	2017	$0	$0	$0	$0	0%	$0	0%	$0	0%	$0	$0	$0
J. Scott Hornafius	President, Elk Petroleum Inc., Denver (ceased May 2018)	2018	$244,708	$6,573	$29,859	$281,140	74%	$56,145	15%	$12,535	3%	$27,808	$0	$377,628
	President, Elk Petroleum Inc., Denver	2017	$319,600	$9,383	$38,361	$367,344	74%	$98,921	20%	$22,312	4%	$0	$11,123	$499,700
Brian Dolan	Chief Operating Officer, Elk Petroleum Inc., Denver	2018	$245,961	$5,901	$25,406	$277,268	74%	$72,577	19%	$6,594	2%	$0	$15,770	$372,209
	Chief Operating Officer, Elk Petroleum Inc., Denver	2017	$250,000	$10,000	$36,056	$296,056	71%	$98,921	24%	$9,228	2%	$0	$15,384	$419,589
James Piccone****	Executive Director, Chief Executive Officer, Elk Petroleum Inc., Denver	2018	$165,865	$0	$12,065	$177,930	18%	$570,660	56%	$262,750	26%	$0	$0	$1,011,340
	Executive Director, Chief Executive Officer, Elk Petroleum Inc., Denver	2017	$0	$0	$0	$0	0%	$0	0%	$0	0%	$0	$0	$0

* Note that the cash bonus value in this table is the bonus that was awarded in FY18. Incentive outcomes for the current and previous period are outlined elsewhere in this report. All the figures disclosed are cash bonuses except for those of James Piccone which are the cash settlements under the new STI LTI plan.

** Note that the equity settled value reported in this table relates to previous retention and/or performance rights, as well as accrual for the 2018 awards (25%) under the Current EPI Plan (these shares are still to be issued).

***Mr David Franks and Mr Andrew Bursill's company secretary services are paid to Franks & Associates Pty Ltd, a company in which they are directors and principal representatives. Franks & Associates Pty Ltd were paid US$167,043 (2017:US$139,162)

**** The STI cash accrual award in the above table is subject to an assessment which shall be done at 31st December 2018 based on 50/50 measurement of personnel KPI and company performance and the LTI will be reassessed as per section 4.2.2

9.2 NED Remuneration

The following table outlines the remuneration received by non-executive directors of the Company during FY18 and the previous year, prepared according to statutory disclosure requirements and applicable accounting standards:

Name	Role(s)	Year	Board Fees	Committee Fees	Superannuation	Other Benefits	Equity Grant	Termination Benefits	Total
Neale Taylor*	Non-Executive Director and Chairman	2018	$80,573	$0	$3,935	$0	$26,858	$0	$111,366
	Non-Executive Director and Chairman	2017	$62,014	$0	$5,891	$0	$10,423	$0	$78,328
Russell Krause**	Non-Executive Director	2018	$46,518	$0	$0	$0	$12,406	$0	$58,924
	Non-Executive Director	2017	$33,953	$0	$0	$0	$3,399	$0	$37,352
Timothy Hargreaves	Non-Executive Director	2018	$46,518	$0	$0	$0	$12,831	$0	$59,349
	Non-Executive Director	2017	$33,953	$0	$0	$0	$4,945	$0	$38,898
		2018							$0
		2017							$0
		2018							$0
		2017							$0

*Part of the Board fees were paid directly to Mr Neale Tayor, the remainder to Oil and Gas Worx Pty Ltd

**All of Russel Krause's fees were paid to Penause Pty Ltd

10 Employment Terms for Key Management Personnel

10.1 Service Agreements

A summary of contract terms in relation to executive KMP is presented below:

Name	Position Held at Close of FY18	Employing Company	Duration of Contract	Period of Notice		Termination Payments
				From Company	From KMP	
Bradley Lingo	Managing Director and Chief Executive Officer	Elk Petroleum Ltd		Six Months	Six Months	Up to 12 months*
Alexander Hunter	Chief Financial Officer, Sydney	Elk Petroleum Ltd	Until 30 June 2019	Six Months	Three Months	Up to 12 months*
David Evans	Chief Operating Officer, Sydney	Elk Petroleum Ltd	Until 30 June 2019	Six Months	Three Months	Up to 12 months*
David Franks	Joint Company Secretary	Elk Petroleum Ltd				Up to 12 months*
Andrew Bursill	Joint Company Secretary	Elk Petroleum Ltd				Up to 12 months*
J. Scott Hornafius	President, Elk Petroleum Inc., Denver (ceased May 2018)	Elk Petroleum Ltd	Ceased employment - May 2018			
Brian Dolan	Chief Operating Officer, Elk Petroleum Inc., Denver	Elk Petroleum Ltd	Ongoing	30 days	30 days	Statutory only
James Piccone	Executive Director, Chief Executive Officer, Elk Petroleum Inc., Denver	Elk Petroleum Ltd	4 years from 1 Jan 18	60 days for non-renewal	30 days	2 x BASE AND STI OR 3 x BASE AND STI FOR CHANGE OF CONTROL EVENT

* Under the Corporations Act the Termination Benefit Limit is 12 months average Salary (last 3 years) unless shareholder approval is obtained

The treatment of incentives in the case of termination is addressed in separate sections of this report that give details of incentive design.

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation relevant to the office of the director. Non-executive directors are not eligible to receive termination payments under the terms of the appointments.

No contracts apply to the appointment of non-executive KMP.

It is noted the Managing Director/CEO's executive employment agreement has been extended until 31 March 2019 while a new employment agreement is settled; discussions are in progress.

11 Other Remuneration Related Matters

The following outlines other remuneration related matters that may be of interest to stakeholders, in the interests of transparency and disclosure:

- There were no loans to Directors or other KMP at any time during the reporting period, and
- There were no relevant material transactions involving KMP other than compensation and transactions concerning shares, performance rights/options as discussed in this report.

The following summarises the treatment of remuneration in respect of those KMP who departed during the reporting period:

On cessation of his employment on 5 May 2018, Scott Hornafius, received (1) Payout of annual leave accrual of US$27,808 and (2) US$5,562 for the balance of salary owed through his termination date of 5 May 2018.It is planned that Dr Hornafius will receive the STI and LTI Awards set out in Section 5(a) with a combined value of US$72,147 in September or October 2018. Once the Board makes a future determination to grant the Deferred Awards set out in Section 5(b) with a combined value of US$217,253. Dr Hornafius' future awards will be paid in cash.

12 External Remuneration Consultant Advice

During the reporting period, the Board approved and engaged an external remuneration consultant (ERC) to provide KMP remuneration recommendations and advice. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

Longnecker & Associates	Executive compensation consulting	US$53,500 for FY18

Subsequent to the end of the reporting period, an Australian ERC, the Godfrey Remuneration Group (GRG), was engaged to assist with drafting the remuneration report. Any fees charged in relation to this activity will be disclosed as part of the FY19 Remuneration Report. Estimated cost is US$12,000 (A$16,000).

The Board plans to engage an independent remuneration consultant to conduct a benchmarking study of the NEDs fees given the change in scope and diversity of the Company's assets, risks and obligations. The consultant will also be asked to make recommendations in regard to any changes to the NED's incentives arrangements to match current best practice in Australia and the US.

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related. The reasons the Board is so satisfied include that it is confident that the policy for engaging external remuneration consultants is being adhered to and is operating as intended; the Board has been closely involved in all dealings with the external remuneration consultants and each KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Neale

Neale Taylor
Chairman

28 September 2018
Sydney

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Elk Petroleum Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Elk Petroleum Limited for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Daniel Camilleri
Partner

Sydney
28 September 2018

Contents

General information

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

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 Phillip Street Sydney NSW 2000 Australia	Australia Square Level 40, Suite 4001 264 George Street Sydney NSW 2000 Australia

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 28 September 2018. The directors have the power to amend and reissue the financial statements.

Corporate Governance Statement

The Company's Corporate Governance Statement can be found on the company's website:
https://www.elkpet.com/governance-and-compliance

Elk Petroleum Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 30 June 2018 US$	 30 June 2017 US$
Revenue	4	95,119,659	4,964,568
Cost of sales	5	(67,150,566)	(5,690,583)
Gross profit		27,969,093	(726,015)
Expenses			
Depreciation and amortisation expense		(66,586)	(52,392)
Net loss on oil and gas derivatives	6	(75,579,699)	(522,191)
Gain on convertible note derivatives		1,907,805	686,881
Fair value adjustment on contingent consideration		(9,560,000)	-
Aneth transaction costs		(4,543,535)	-
Impairment expense	13	(14,976,002)	-
Other expenses	6	(12,646,815)	(6,503,813)
Finance costs	6	(21,507,883)	(999,992)
Total expenses		(136,972,715)	(7,391,507)
Loss before income tax expense		(109,003,622)	(8,117,522)
Income tax expense	7	-	-
Loss after income tax expense for the year attributable to the owners of Elk Petroleum Limited	26	(109,003,622)	(8,117,522)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		529,705	338,339
Other comprehensive income for the year, net of tax		529,705	338,339
Total comprehensive loss for the year attributable to the owners of Elk Petroleum Limited		(108,473,917)	(7,779,183)
		US Cents	**US Cents**
Basic earnings (loss) per share	40	(8.9)	(1.0)
Diluted earnings per share	40	(8.9)	(1.0)

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

	Note	Consolidated 30 June 2018 US$	30 June 2017 US$
Assets			
Current assets			
Cash and cash equivalents	8	34,917,905	4,858,679
Trade and other receivables	9	13,825,618	2,184,084
Restricted cash	10	565,786	7,373,265
Derivative financial instruments	11	111,668	866,700
Other		370,214	-
Total current assets		49,791,191	15,282,728
Non-current assets			
Derivative financial instruments	12	203,564	3,018,274
Property, plant and equipment		914,768	104,887
Oil and gas properties	13	239,490,444	93,063,504
Restricted cash	14	22,861,346	-
Other		685,834	228,648
Total non-current assets		264,155,956	96,415,313
Total assets		313,947,147	111,698,041
Liabilities			
Current liabilities			
Trade and other payables	15	22,009,308	10,794,753
Borrowings	16	31,132,061	6,736,002
Derivative financial instruments	17	31,121,294	-
Contingent consideration	18	9,630,000	-
Total current liabilities		93,892,663	17,530,755
Non-current liabilities			
Borrowings	19	157,684,197	55,845,569
Derivative financial instruments	20	28,950,855	3,603,337
Provisions	21	14,854,605	14,213,186
Preferred stock - debt	22	62,354,767	-
Contingent consideration	23	12,670,000	-
Total non-current liabilities		276,514,424	73,662,092
Total liabilities		370,407,087	91,192,847
Net assets/(liabilities)		(56,459,940)	20,505,194
Equity			
Issued capital	24	95,045,733	63,454,564
Reserves	25	10,171,811	11,004,936
Accumulated losses	26	(161,677,484)	(53,954,306)
Total equity/(deficiency)		(56,459,940)	20,505,194

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

Consolidated	Contributed equity US$	Foreign Currency Translation reserve US$	Share-based payments 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 year	-	-	-	(8,117,522)	(8,117,522)
Other comprehensive income for the year, net of tax	-	338,339	-	-	338,339
Total comprehensive income/(loss) for the year	-	338,339	-	(8,117,522)	(7,779,183)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 24)	10,202,985	-	-	-	10,202,985
Share-based payments (note 41)	42,604	-	1,111,287	-	1,153,891
Balance at 30 June 2017	63,454,564	8,029,738	2,975,198	(53,954,306)	20,505,194

Consolidated	Contributed equity US$	Foreign Currency Translation reserve US$	Share-based payments 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 year	-	-	-	(109,003,622)	(109,003,622)
Other comprehensive income for the year, net of tax	-	529,705	-	-	529,705
Total comprehensive income/(loss) for the year	-	529,705	-	(109,003,622)	(108,473,917)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 24)	31,003,772	-	-	-	31,003,772
Share-based payments	587,397	-	(1,362,830)	1,280,444	505,011
Balance at 30 June 2018	95,045,733	8,559,443	1,612,368	(161,677,484)	(56,459,940)

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

Elk Petroleum Limited
Statement of cash flows
For the year ended 30 June 2018

		Consolidated	
	Note	30 June 2018 US$	30 June 2017 US$
Cash flows from operating activities			
Receipts from customers		85,911,500	3,624,557
Payments to suppliers		(75,778,300)	(6,163,248)
Interest received		143,200	11,871
Finance costs		(14,010,900)	(557,150)
Net cash used in operating activities	39	(3,734,500)	(3,083,970)
Cash flows from investing activities			
Payments for acquisition of Aneth & Madden		(163,196,200)	(11,233,971)
Acquisition of oil and gas plant and equipment		(5,678,100)	(2,711,000)
Payment for development expenditure		(14,257,700)	(38,149,546)
Payment for security and bonds deposits		(726,800)	(50,836)
Purchase of put options		-	(4,407,165)
Transfers to restricted cash accounts		6,195,800	(7,373,265)
Net cash used in investing activities		(177,663,000)	(63,925,783)
Cash flows from financing activities			
Proceeds from issue of shares		30,679,100	7,319,645
Share issue transaction costs		(5,677,084)	(612,319)
Proceeds from issuance of preferred stock		70,000,500	-
Proceeds from borrowings		162,639,300	56,260,865
Proceeds from borrowings (Convertible Loan)		-	14,405,028
Transaction costs related to loans and borrowings		(8,038,990)	(3,205,057)
Repayment of borrowings		(38,044,100)	(15,760,720)
Net cash from financing activities		211,558,726	58,407,442
Net increase/(decrease) in cash and cash equivalents		30,161,226	(8,602,311)
Cash and cash equivalents at the beginning of the financial year		4,858,679	13,443,508
Effects of exchange rate changes on cash and cash equivalents		(102,000)	17,482
Cash and cash equivalents at the end of the financial year	8	34,917,905	4,858,679

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 financial statements of the Group have been prepared on a going concern basis which contemplates the realisation of assets and the discharge of liabilities in the ordinary course of business.

The Group (consisting of Elk Petroleum Ltd and the entities it controlled at the end of, or during, the full-year ended 30 June 2018) incurred a loss for the year after tax of US$109,003,622 (full year to 30 June 2017: US$8,117,522) and a net cash outflow from operating activities of US$3,734,500 (full year to 30 June 2017: US$3,083,970). Additionally, the Group had net liabilities of US$56,459,940 at 30 June 2018.

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

i. costs associated with the Group's build-up and intended future maintenance of a high level technical staff capability to support Aneth development program,
ii. the likelihood of a contingent purchase price payment in November 2018 relating to the Aneth acquisition,
iii. delayed Grieve production commencement; and
iv. 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.

Operating

The operating results for the period ended 30 June 2018 reflect the ongoing 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 US$109,003,622 reflects the negative impact of financing costs, Aneth transaction costs, and oil swap hedging liability; as well as significant one-off start-up and transition costs related to our acquisition of Aneth and the related staffing of personnel as an operating company. Most of these finance and transaction costs are expected to be non-recurring or will be materially reduced with a planned refinancing scheduled for completion in the October 2018 to December 2018 quarter (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 October 2018 to December 2018 quarter. Elk's interest in Grieve is forecast to generate a positive operating cash flow for the Group, however some uncertainty remains on Grieve's production outlook and start-up date which assumes the ramp up of production at Grieve over the next 12 months to provide material cash flows to the Group in 2019.

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 October 2018 to December 2018 quarter. Elk is in the process of undertaking a corporate refinancing that is scheduled for completion in October 2018 to December 2018 quarter that will significantly reduce the Group's financing costs going into 2019.

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 and cash flow from the Aneth and Madden/Lost Cabin revenues as well as future Grieve cash flows. The first contingent payment to Resolute late in early November 2018 (forecast to be US$10m) will generate some variability in quarterly results for FY19. Elk is in the process of undertaking a corporate refinancing that is scheduled for completion in October 2018 to December 2018 quarter that will significantly reduce the Group's financing costs going into 2019.

The Group's current financing arrangements are the result of acquisition outcomes during the year. The Directors believe

Note 1. Significant accounting policies (continued)

the present value of the Group’s proven and proven developed reserves for the Aneth, Grieve and Madden production assets provide 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 cash requirements from its current revenue and cash flow is uncertain. Any shortfall in funding operational and financing cash requirements is expected to be funded by the intended refinancing or 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.

There is a risk that the Group will not achieve forecast operating cash flows, realise sufficient cash proceeds from asset sales or not complete the contemplated refinancing. These factors give rise to a material uncertainty as to whether the Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Notwithstanding the uncertainties set out above, the Directors believe at the date of the signing of the financial report there are reasonable grounds to prepare the financial statements of the Group on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The Board of Directors approved the financial statements on 28 September 2018.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in note 34.

Change in accounting policy

The Group has made a voluntary change to its accounting policy relating to exploration and evaluation expenditure. The change in accounting policy was adopted for the financial year ended 30 June 2018 and has been applied retrospectively.

The new exploration and evaluation accounting policy uses the "successful efforts" method of accounting whereby exploration and evaluation expenditure in relation to unsuccessful exploration wells and directly attributable costs such as general administration costs, geological and geophysical costs, seismic and pre-license expenditure, is expensed. An exploration well is considered to be unsuccessful if no recoverable hydrocarbons are identified, or the company considers that the hydrocarbons are not commercially viable.

The previous accounting policy was to capitalise and carry forward costs associated with the exploration, evaluation and development activities on an area of interest basis.

It is the view of the Directors that the change in policy will provide market participants with more reliable and relevant information as to the carrying values of exploration and evaluation assets and to afford greater transparency regarding the

Note 1. Significant accounting policies (continued)

Group's current financial performance and position. Adopting successful efforts will also bring the Group into line with the majority of its peers.

The change in accounting policy did not have a material impact on the prior year results and financial position.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. There are no critical accounting judgements, estimates and assumptions that are likely to affect the current or future financial years.

Note 3. Operating segments

Segment information
Information reporting to the Chief Operating Decision Maker (CODM), being the Managing Director, for the purpose of resource allocation and assessment of performance is more specifically focussed on the category of business units. The Group's reportable segments under AASB 8 'Operating Segments' have changed during the period to reflect the major operations reported to the CODM. Comparative segment information has been restated to align with the current structure. The Group reportable segments are therefore as follows:

Description of segments

Aneth
The company holds a 63% operating working interest in the Aneth Field, located in southeastern Utah. Aneth 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.

Madden
The Madden Gas Field and the Lost Cabin Gas Plant are in Natrona and Freemont counties, Wyoming approximately 95 kms (60 miles) from Elk's Grieve CO_2 enhanced oil recovery project. Elk owns a ~14% non-operating working interest (excluding net profits interests granted in connection with the issuance of preferred equity) in the Madden Gas Field and the Lost Cabin Gas Plant and associated gas gathering pipeline systems. The Madden Gas Field and the Lost Cabin Gas Plant is operated by Conoco Phillips (46%) and the balance of the unit and gas plant is owned by Moncrief Oil (30%) and various other private interest holders.

Grieve
The Grieve CO_2 EOR Project is owned by Elk with a 49% non-operated working interest (excluding overriding royalty interests granted in connection with past financing transactions) and Denbury Resources with a 51% operated working interest.

Unallocated
Unallocated includes non-trading operations and unallocated corporate costs.

Note 3. Operating segments (continued)

Operating segment information

Consolidated - 30 June 2018	Aneth US$	Madden US$	Grieve US$	Unallocated US$	Total US$
Revenue					
Sales to external customers	75,259,530	19,535,227	-	8,457	94,803,214
Interest revenue	-	-	-	299,245	299,245
Other revenue	-	-	-	17,200	17,200
Total revenue	75,259,530	19,535,227	-	324,902	95,119,659
Total revenue above	75,259,530	19,535,227	-	324,902	95,119,659
Depreciation	(11,958)	-	-	(54,628)	(66,586)
Production costs	(43,137,698)	(23,742,191)	(89,120)	(181,557)	(67,150,566)
Finance costs	(10,120,675)	(465,104)	(19,576)	(10,902,528)	(21,507,883)
Other expenses	(79,497,303)	(13,655,340)	(3,691,034)	(18,554,569)	(115,398,246)
Loss before income tax expense	(57,508,104)	(18,327,408)	(3,799,730)	(29,368,380)	(109,003,622)
Income tax expense					-
Loss after income tax expense					(109,003,622)
Assets					
Segment assets	206,790,715	1,596,031	77,279,180	28,281,221	313,947,147
Total assets					313,947,147
Liabilities					
Segment liabilities	269,194,885	20,748,995	77,555,386	2,907,821	370,407,087
Total liabilities					370,407,087

Consolidated - 30 June 2017	Aneth US$	Madden US$	Grieve US$	Unallocated US$	Total US$
Revenue					
Sales to external customers	-	4,946,975	-	-	4,946,975
Interest revenue	-	-	-	11,871	11,871
Other revenue	-	-	5,331	391	5,722
Total revenue	-	4,946,975	5,331	12,262	4,964,568
Total revenue above	-	4,946,975	5,331	12,262	4,964,568
Depreciation and amortisation	-	(1,307,237)	(15,418)	(54,093)	(1,376,748)
Cost of sales	-	(4,041,821)	(40,107)	(284,299)	(4,366,227)
Finance costs	-	(207,316)	(46,531)	(746,145)	(999,992)
Other expenses	-	(38,156)	(553,484)	(5,747,483)	(6,339,123)
Loss before income tax expense	-	(647,555)	(650,209)	(6,819,758)	(8,117,522)
Income tax expense					-
Loss after income tax expense					(8,117,522)
Assets					
Segment assets	-	30,314,191	70,645,564	10,738,286	111,698,041
Total assets					111,698,041
Liabilities					
Segment liabilities	-	22,182,251	52,005,423	17,005,173	91,192,847
Total liabilities					91,192,847

Geographical information

All of the Group's external sales to customer and non-current assets are located in the United States of America. The Group has individual customers that are responsible for more than 10% of the Group’s revenue, particularly relating to Aneth oil and gas production.

Note 3. Operating segments (continued)

Significant accounting policy

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 4. Revenue

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Sales revenue		
Sale of oil and gas	94,803,214	4,946,975
Other revenue		
Other income	17,200	5,722
Interest	299,245	11,871
	316,445	17,593
Revenue	95,119,659	4,964,568

Significant accounting policy

Revenue

Revenue is recognised when it is probable that the economic benefit will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales revenue - oil and gas

Revenues from the sale of oil and natural gas are recognised when the product is delivered at a fixed or determinable price, title has transferred, and collectability is reasonably assured. The Group recognizes revenues from the sale of oil and natural gas based on the Group's share of volume sold, regardless of whether the Group has taken its proportional share of volume produced. A receivable or liability is recognized only to the extent that the Group has an imbalance on a specific property greater than the expected remaining proved reserves. There were no material oil or natural gas imbalances at 30 June 2018 (30 June 2017: no material imbalances)

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Note 5. Cost of sales

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Production costs	(55,887,171)	(4,366,227)
Depreciation and amortisation expenses relating to production activities	(11,263,395)	(1,324,356)
	(67,150,566)	(5,690,583)

Note 6. Expenses

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Loss before income tax includes the following specific expenses:		
Net loss on derivatives		
Loss on derivatives financial instruments - Oil (Aneth) - unrealised	57,907,910	-
Loss on derivative financial instruments - Oil (Grieve)	3,569,742	522,191
Loss on derivative financial instruments - CO_2	266,873	-
Loss on derivatives financial instruments - Oil (Aneth) - realised	13,835,174	-
Total net loss on derivatives	75,579,699	522,191
Other expenses		
Professional and corporate services	2,433,559	1,117,194
Administration and corporate cost	3,567,381	1,147,059
Director and employee costs (a)	10,513,685	3,683,222
Foreign exchange loss	-	555,288
Loss on disposal	-	1,050
Recoveries (b)	(3,867,810)	-
	12,646,815	6,503,813
Finance costs		
Interest - Preferred Stock	8,071,899	-
Interest - Convertible notes	2,810,215	636,263
Interest - Revolver Loan	955,385	-
Interest - Senior Debt	8,718,662	-
Interest - Other	265,903	176,696
Unwinding discount on provisions	685,819	187,033
Finance costs expensed	21,507,883	999,992
(a) Director and employee costs		
Directors and executives fees and salaries	2,621,659	917,059
Non-executive directors fees	177,544	145,713
Employee wages and benefit	6,966,114	1,466,559
Share-based payments	748,368	1,153,891
	10,513,685	3,683,222

(b) The Group recovers a portion of the employee benefit expense and other operating expenses from its joint venture partners.

Note 6. Expenses (continued)

Significant accounting policy

Wages and salaries
Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits are all expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Depreciation, Depletion and 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.

Changes in factors such as estimates of reserves that affect the amortisation and depletion calculation do not give rise to prior period adjustments and are dealt with on a prospective basis.

Note 7. Income tax benefit

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax expense	(109,003,622)	(8,117,522)
Tax at the statutory tax rate of 30%	(32,701,087)	(2,435,257)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Difference of tax rate in US controlled entities (US average tax rate: 27.5%)	324,953	-
Non-deductible expenses	1,773,425	-
Share-based payments	145,685	346,167
Change in US federal tax rate	13,127,890	-
Change in unrecognized tax assets due to US Tax Reform	(13,127,890)	-
Non-deductible / (taxable) amounts - fair value movement in derivatives	-	301,714
Other items	(916,686)	-
	(31,373,710)	(1,787,376)
Current year tax losses not recognised	31,373,710	1,787,376
Income tax expense	-	-

The change in the US federal tax rate was due to the passage of Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act. The passage of this legislation resulted in the change in the U.S. statutory rate from 35% to 21%. Based on the Company's current interpretation and subject to the release of the related regulations and any future interpretive guidance, the Company believes the effects of the change in tax law incorporated herein are substantially complete.

Note 7. Income tax benefit (continued)

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Tax losses not recognised - Australia		
Unused tax losses for which no deferred tax asset has been recognised	16,298,543	8,957,730
Potential tax benefit @ 30%	4,889,563	2,687,319
Tax losses not recognised - US		
Unused tax losses for which no deferred tax asset has been recognised	34,789,894	26,849,341
Potential tax benefit @ 21% (2017: 34%)	7,305,878	9,128,776

Unused tax losses include losses of the US subsidiaries. The above potential tax benefit for tax losses has not been recognised in the statement of financial position. The Australian tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

US tax losses incurred prior to 31 December 2017 have a 20 years expiry period. Tax losses post 31 December 2017 do not expire under the United States tax legislation. The utilisation of such losses may be limited upon the occurrence of certain ownership changes, including the purchase or sale of stock by 5% shareholders and the offering of stock by the Company during any three-year period resulting in an aggregate change of more than 50% in the beneficial ownership of the Company.

Significant accounting policy

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 8. Current assets - Cash and cash equivalents

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Cash on hand and deposits on call	34,917,905	4,858,679

Significant accounting policy

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Current assets - Trade and other receivables

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Trade receivables	13,296,182	1,821,221
Prepayments	493,931	290,737
Other receivables	35,505	72,126
	529,436	362,863
	13,825,618	2,184,084

Terms and conditions relating to the above financial instruments:

- Trade receivables are non-interest bearing and generally on 30 day 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 group bank to state governmental agencies against environmental obligations.

No impairment for trade and other receivables were recognised for balances as at 30 June 2018 (2017: Nil).

Significant accounting policy

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 10. Current assets - Restricted cash

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Restricted cash	565,786	7,373,265

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

Note 11. Current assets - Derivative financial instruments - oil

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Derivative financial instruments - oil	111,668	866,700

Refer to note 23 for further information on fair value measurement.

During the financial year 2017, 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 year, 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$3,569,742 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 assessed against independent market valuations.
- Expected exercise period: July 2018 to December 2019
- Volatility range: 28.91% to 109.71%
- Future oil price: US$67.133

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

Significant accounting policy

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. If the derivatives is not designated as a hedging instrument, the changes in fair value is taken up in the statement of profit or loss.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Note 12. Non-current assets - Derivative financial instruments

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Derivative financial instruments - oil	203,564	3,018,274

Refer to note 29 for further information on fair value measurement.

Refer to note 11 for further information on the derivative financial instruments – oil.

Note 13. Non-current assets - Oil and gas properties

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Oil and gas properties acquired - at cost	266,962,275	95,769,950
Less: Accumulated amortisation	(13,852,483)	(2,496,446)
Less: Impairment	(13,619,348)	(210,000)
	239,490,444	93,063,504

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

Consolidated	Production US$	Development US$	Total US$
Balance at 1 July 2016	-	30,901,328	30,901,328
Expenditure during the year	693,780	34,546,816	35,240,596
Acquisition of Madden Gas Field	16,735,552	-	16,735,552
Provision for closure costs	11,191,029	319,355	11,510,384
Amortisation/Depletion expense	(1,308,398)	(15,958)	(1,324,356)
Balance at 30 June 2017	27,311,963	65,751,541	93,063,504
Expenditure during the year	8,350,055	14,194,682	22,544,737
Acquisition of Aneth	161,423,415	-	161,423,415
Impairment of assets	(13,619,348)	(1,356,654)	(14,976,002)
Provision for closure costs	(9,109,769)	(2,192,046)	(11,301,815)
Amortisation/Depletion expense	(11,263,395)	-	(11,263,395)
Balance at 30 June 2018	163,092,921	76,397,523	239,490,444

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 year, the Group 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 estimation methodology 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 2017 onwards. The impact of this change is not material to the 2018 amortisation charge.

Note 13. Non-current assets - Oil and gas properties (continued)

Impairment of Madden Oil Field

Madden 1P reserves decreased substantially during the year as a result of impact of gas prices and the present value of future cashflows were negatively impacted by the AB Global ORRI & NPI. This led to an impairment trigger resulting in the impairment of Madden by US$13.6 million to a nil carrying value. A future change in 1P reserves or renegotiation of the AB Global ORRI & NPI may result in a reversal of a portion or all of the Madden impairment.

Sale of Singleton Oil Field

The Company completed the sale of the Singleton Oil Field and all its oil & gas leases in Nebraska to a private Nebraska oil & gas operator. The consideration for the sale of the Singleton Oil Field and all the Nebraska oil and gas leases was US$10,000 plus the assumption of all environmental and abandonment liabilities. The Singleton Oil Field was originally acquired in early 2014 as a prospective candidate for a small-scale CO_2 EOR project seeking to recover 2-4 mmbbls of oil. Since mid-2016, the Company placed the development of the Singleton CO_2 EOR Project on care and maintenance as it was determined that the project was not economic at current oil prices. The Company determined that the Singleton Project was unlikely to be developed in the near term and should be sold eliminating continuing holding costs and any potential liabilities associated with operations by prior owners and operators.

Significant accounting policies

Assets in development
The costs of oil and gas producing assets and capitalised expenditure on oil and gas assets under development are accounted for separately and are stated at cost less amortisation and impairment losses. Costs include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand, replace or improve plant and equipment and any associated land and buildings.

Producing assets
When an oil and gas asset commences production, costs carried forward are subjected to 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.

Changes in factors such as estimates of 1P reserves that affect the amortisation and depletion calculation do not give rise to prior period adjustments and are dealt with on a prospective basis.

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the consolidated balance sheet at total estimated present value.

Impairment
The carrying values of oil and gas property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired. The recoverable amount of oil and gas properties and plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the profit or loss.

Note 14. Non-current assets - Restricted cash

	Consolidated 30 June 2018 US$	 30 June 2017 US$
Restricted cash - non-current	22,861,346	-

Cash is restricted for the purpose of settling rehabilitation obligations of the Aneth Field. The restricted cash balance arose as a result of the Aneth acquisition.

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 30 June 2018. The Company is required to make additional deposits to the escrow account annually. In the financial year ended 2019, Elk must fund approximately US$0.7 million. In years after the financial year 2019, 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 15. Current liabilities - Trade and other payables

	Consolidated 30 June 2018 US$	 30 June 2017 US$
Trade payables	3,894,006	3,865,148
Accruals and other payables	17,538,589	6,929,605
Interest payable	576,713	-
	22,009,308	10,794,753

Refer to note 28 for further information on financial risk management and instruments.

Trade payables are non-interest bearing.

Significant accounting policies

Trade and other payables
These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 16. Current liabilities - Borrowings

	Consolidated 30 June 2018 US$	 30 June 2017 US$
Borrowing - Revolver Loan (1)	10,000,000	-
Borrowings - Benefit Street Partners (see Note 19)	10,880,000	6,732,300
Borrowing - Senior Debt (see Note 19)	10,250,000	-
Lease liability	2,061	3,702
	31,132,061	6,736,002

Note 16. Current liabilities - Borrowings (continued)

Refer to note 19 for accounting policy and further information on assets pledged as security and financing arrangements.

Refer to note 28 for further information on financial risk management and instruments.

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

(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

Note 17. Current liabilities - Derivative financial instruments

	Consolidated	
	30 June 2018 **US$**	**30 June 2017** **US$**
Derivative financial instruments - current (Aneth)	31,121,294	-

Refer to note 28 for further information on financial risk management and instruments.

Refer to note 29 for further information on fair value measurement.

During the year, the Company implemented an oil price hedging program to underwrite oil prices going forward for the Aneth Project of at least 80% of reasonably anticipated PDP reserves volumes for rolling 36 months period. Under this program Elk Petroleum Aneth entered into oil price swaps into the following swaps at:

- US$47.45/bbl for 21% of its share of forecast PDP oil production from the Aneth Project during the calendar year 2018;
- US$50.05/bbl for 54% of its share of forecast PDP oil production from the Aneth Project during calendar years 2018 to 2020.
- US$62.12 for 1% of its share of forecast PDP oil production from the Aneth Project during the calendar year 2018
- US$57.63 for 2% of its share of forecast PDP oil production from the Aneth Project during the calendar year 2019
- US$54.29 for 3% of its share of forecast PDP oil production from the Aneth Project during the calendar year 2020
- US$52.76 for 369,633 bbls from the Aneth Project during the calendar year 2021.

During the year, 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$57.9 million (see Note 5) 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:	July 2018 to March 2021
Future oil price:	US$64.165

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 18. Current liabilities - Contingent consideration

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Contingent consideration liability - current	9,630,000	-

Refer to Note 23 and Note 35 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 amount that would be recognised in accordance with the requirements for provisions.

Note 19. Non-current liabilities - Borrowings

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Borrowings - Benefit Street Partners (1)	45,190,994	45,689,888
Borrowings - Convertible Notes (USD) (2)	9,755,383	8,688,370
Borrowings - Convertible Notes (AUD) (2)	1,397,495	1,456,421
Borrowings - Senior Debt (3)	101,331,820	-
Lease liability	8,505	10,890
	157,684,197	55,845,569

Refer to note 28 for further information on financial risk management and instruments.

(1) Borrowings - Benefit Street Partners

During the financial year ended 30 June 2017, 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 30 June 2018 is US$58.0 million. Transaction costs of $3.2 million were incurred in establishing this facility.

(2) Borrowings - Convertible Notes

During the financial year ended 30 June 2017, the USD and AUD convertible notes totalling US$14.4 million 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

Note 19. Non-current liabilities - Borrowings (continued)

No notes had been converted at 30 June 2018. 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 year, 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 lesser 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

In June 2018, the Company secured an increase of US$24.0 million to the Aneth Term Loan Facility. The loan will be used to fund projects in the Aneth Stage 1 Field Development Program.

The total amount drawn as at 30 June 2018 is US$118.25 million.

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

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Borrowings - Revolver Loan	10,000,000	-
Borrowings - Benefit Street Partners (1)	56,070,994	52,422,188
Borrowings - Convertible Notes (USD) (2)	9,755,383	8,688,370
Borrowings - Convertible Notes (AUD) (2)	1,397,495	1,456,421
Borrowings - Senior Debt (3)	111,581,820	-
Lease liability	10,566	14,592
	188,816,258	62,581,571

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

The lease liabilities were effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Note 19. Non-current liabilities - Borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated 30 June 2018 US$	 30 June 2017 US$
Total facilities		
Borrowings - Revolver Loan	20,000,000	-
Borrowings - Benefit Street Partners	58,000,000	58,000,000
Borrowings - Senior Debt	122,000,000	-
	200,000,000	58,000,000
Used at the reporting date		
Borrowings - Revolver Loan	10,000,000	-
Borrowings - Benefit Street Partners	58,000,000	56,260,865
Borrowings - Senior Debt	118,250,000	-
	186,250,000	56,260,865
Unused at the reporting date		
Borrowings - Revolver Loan	10,000,000	-
Borrowings - Benefit Street Partners	-	1,739,135
Borrowings - Senior Debt	3,750,000	-
	13,750,000	1,739,135

Significant accounting policies

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Note 20. Non-current liabilities - Derivative financial instruments

	Consolidated 30 June 2018 US$	 30 June 2017 US$
Derivative financial instruments liability - non-current (Aneth) (1)	26,727,354	-
Derivative financial instruments - convertible notes (2)	1,368,783	3,603,337
Derivative financial instruments liability - CO_2 (3)	854,718	-
	28,950,855	3,603,337

Refer to note 28 for further information on financial risk management and instruments.

Refer to note 29 for further information on fair value measurement.

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

Refer to Note 16 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$1.4 million represents the embedded derivative component within the secured convertible note at the balance date. A gain of US$2.2 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.

(3) Derivative financial derivatives - CO_2

The Group has an embedded derivative related to a take-or-pay purchase agreement with Kinder Morgan CO_2 Company L.P. The agreement included contingent payments linked to crude oil prices which the Group determined was not clearly and closely related to the host contract, and the Group therefore bifurcated this embedded feature and reflected it at fair value in its consolidated financial statements. The fair value of the embedded derivative was determined using an industry standard commodity option model which considers various assumptions, including estimates of future oil prices developed using regression statistics and historical pricing. The estimates of future oil prices were unobservable inputs, were significant to the valuation methodology, and the embedded derivative's fair value was therefore designated as Level 3 within the valuation hierarchy.

Note 21. Non-current liabilities - Provisions

	Consolidated 30 June 2018 US$	 30 June 2017 US$
Provisions	14,854,605	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 pre-tax discount rate from 3% to 10% (2017: 3%) 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$11.3 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.

Note 21. Non-current liabilities - Provisions (continued)

Movements in provisions
Movements in provision during the current financial year are set out below:

Consolidated - 30 June 2018	**Rehabilitation costs US$**
Carrying amount at the start of the year	14,213,186
Additions through business combinations (note 35)	11,257,415
Revision of decommissioning obligations	(11,301,815)
Unwinding of discount	685,819
Carrying amount at the end of the year	14,854,605

Significant accounting policies

Provisions
Provisions are recognised when the group has a present (legal or constructive) obligation as a result of a past event, it is probable the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Environmental rehabilitation expenditure
The provision for rehabilitation represents the cost of restoring site damage following initial disturbance. Increases in the provision are charged to oil field assets and amortised over the life of the field using the units of production method on estimated proven and probable reserves. Expenditure on ongoing rehabilitation costs is brought to account when incurred.

Gross rehabilitation costs are estimated at the present value of the expenditures expected to settle the obligation, using estimated cash flows based on current prices. The estimates are discounted at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risk specific to the liability.

Critical accounting judgements, estimates and assumptions

Rehabilitation provision
A provision has been made for the present value of anticipated costs of the remediation work that will be required to comply with environmental and legal obligations. The provision is estimated based on currently available facts, technology expected to be available at the time of the clean-up, laws and regulations presently or virtually certain to be enacted and prior experience in remediation of contaminated sites

Note 22. Non-current liabilities - Preferred stock - debt

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Preferred Stock - Debt	62,354,767	-

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. During the year, 5,000 Series B preferred stocks was syndicated by AB Global to other parties resulting in an increase in Series A preferred stocks to 30,000 and a decrease in Series B preferred stocks to 35,000.

Details of Series A preferred stock are as follows:

Note 22. Non-current liabilities - Preferred stock - debt (continued)

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

- Dividend of 15% p.a. paid quarterly (whereby 20% of dividend due 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:
- Fees:
  i. 100% Madden net cash flow until Series B shares are re-paid
  ii. After Series B has been re-paid, a Net Profit Overriding Royalty Interest (NPI) at Madden of 25% of Madden net cash
  iii. If Series B had been syndicated prior to 6 December 2017, the Madden net cash flow would have been reduced to 25%

- Dividend of 15% p.a. paid quarterly (whereby 20% of dividend due can be paid in kind by issuing further Preferred Equity Shares)

- 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

Preferred stock - debt
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.

Note 23. Non-current liabilities - Contingent consideration

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Contingent consideration liability - non-current	12,670,000	-

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 year was US$9.2 million. Refer to Note 35 for further details.

Note 24. Equity - Issued capital

	Consolidated			
	30 June 2018 Shares	30 June 2017 Shares	30 June 2018 US$	30 June 2017 US$
Ordinary shares - fully paid	1,508,331,447	854,703,116	95,045,733	63,454,564

Movements in ordinary share capital

Details	Date	Shares	Issue price	US$
Balance	1 July 2016	672,309,014		53,208,975
Shares issue - shortfall to Entitlement offer	29 August 2016	32,907,335	US$0.057	1,863,625
Shares issue - shortfall to Entitlement offer	1 September 2016	79,303,333	US$0.057	4,483,414
Shares issue - shortfall to Entitlement offer	1 September 2016	19,598,172	US$0.057	1,107,983
Shares issue - shortfall to Entitlement offer	12 September 2016	10,630,635	US$0.056	600,605
Shares issue - shortfall to Entitlement offer	12 September 2016	4,039,365	US$0.056	228,214
Shares issue - suppliers	12 September 2016	4,000,000	US$0.075	301,320
Shares issue - shortfall to Entitlement offer	20 September 2016	1,996,000	US$0.057	112,904
Shares issue - suppliers	7 October 2016	29,262,354	US$0.072	2,105,236
Share issue – vesting of 2014 retention rights	30 June 2017	656,908	US$0.065	42,604
Less share issue costs		-	US$0.000	(600,316)
Balance	**30 June 2017**	**854,703,116**		**63,454,564**
Share-based payments - retention shares issued	17 July 2017	2,000,000	US$0.048	95,306
Shares issue - sophisticated and professional investors	20 September 2017	63,338,066	US$0.050	3,152,956
Shares issue - sophisticated and professional investors	21 September 2017	131,199,763	US$0.048	6,478,224
Shares issue - sophisticated and professional investors	26 September 2017	747,300	US$0.049	36,779
Shares issue - sophisticated and professional investors	1 November 2017	80,520,799	US$0.047	3,823,595
Shares issue - sophisticated and professional investors	2 November 2017	154,709,827	US$0.048	7,400,235
Shares issue - placement of employee shares	10 November 2017	9,913,194	US$0.049	485,096
Shares issue - sophisticated and professional investors	10 November 2017	13,032,633	US$0.048	620,723
Shares issue - in lieu of fees for Aneth acquisition	16 November 2017	32,258,065	US$0.047	1,518,800
Shares issue - exercise of options	31 January 2018	1,333,333	US$0.061	80,960
Shares issue - sophisticated and professional investors	18 May 2018	164,466,639	US$0.055	9,027,360
Shares issue - vesting of 2015 retention rights	30 June 2018	108,712	US$0.064	6,995
Less share issue costs		-	US$0.000	(1,135,860)
Balance	**30 June 2018**	**1,508,331,447**		**95,045,733**

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 24. Equity - Issued capital (continued)

Capital risk management
The directors' primary objective is to maintain a capital structure that ensures the lowest cost of capital available to the group. At balance date, the group has external borrowings for working capital, plant and equipment, borrowings to Benefit Street Partners and for the convertible notes.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Significant accounting policy

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 25. Equity - Reserves

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Foreign currency reserve	8,559,443	8,029,738
Share-based payments reserve	1,612,368	2,975,198
	10,171,811	11,004,936

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to US Dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency US$	Share-based payment US$	Total US$
Balance at 1 July 2016	7,691,399	1,863,911	9,555,310
Foreign currency translation	338,339	-	338,339
Share based payment	-	1,111,287	1,111,287
Balance at 30 June 2017	8,029,738	2,975,198	11,004,936
Foreign currency translation	529,705	-	529,705
Share-based payment for the year	-	748,368	748,368
Transferred to share capital	-	(587,397)	(587,397)
Others	-	(18,286)	(18,286)
Cash-settled during the year	-	(225,071)	(225,071)
Lapsed - transferred to accumulated losses	-	(1,280,444)	(1,280,444)
Balance at 30 June 2018	8,559,443	1,612,368	10,171,811

Note 26. Equity - Accumulated losses

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Accumulated losses at the beginning of the financial year	(53,954,306)	(45,836,784)
Loss after income tax expense for the year	(109,003,622)	(8,117,522)
Transfer from option reserve	1,280,444	-
Accumulated losses at the end of the financial year	(161,677,484)	(53,954,306)

Note 27. Equity - Dividends

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

Note 28. Financial risk management and instruments

Financial risk management objectives

The group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. As each of the individual entity within the group primarily transact in their own respective functional currency, foreign currency risk is deemed to be minimal.

Price risk

Commodity : Oil and Gas

The group was exposed to price risk during the year from the sale of gas. An sensitivity analysis of the change of oil and gas prices to the net profit of the consolidated entity is presented below.

	Average price increase			Average price decrease		
Consolidated - 30 June 2018	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Gas price	1%	62,379	62,379	(1%)	(62,379)	(62,379)
Oil price	1%	242,228	242,228	(1%)	(242,228)	(242,228)
		304,607	304,607		(304,607)	(304,607)

Note 28. Financial risk management and instruments (continued)

Consolidated - 30 June 2017	Average price increase % change	Effect on profit before tax	Effect on equity	Average price decrease % change	Effect on profit before tax	Effect on equity
Gas price	1%	49,095	49,095	(1%)	(49,095)	(49,095)

Commodity : Oil
The Group has managed its exposure to future commodity prices by entering into the following oil swaps during the financial year:

Commodity	Price	FY18 (bbls)	FY19 (bbls)	FY20 (bbls)	FY21 (bbls)	Total
WTI	US$47.45/bbl	724,000	736,000	-	-	1,460,000
WTI	US$50.05/bbl	54,027	761,964	1,422,358	684,280	2,922,629
WTI	US$62.12/bbl	15,625	38,879	-	-	54,504
WTI	US$57.63/bbl	-	48,253	58,336	-	106,589
WTI	US$54.29/bbl	-	-	66,610	70,018	136,628
WTI	US$52.76/bbl	-	-	-	369,633	369,633

Interest rate risk
The group’s exposure to the risk of changes in market interest rates relates primarily to the group’s Benefit Street Partner facility with floating interest rates. Financial instruments with variable rates expose the group to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables (including the lease liabilities), are non-interest bearing or bear fixed interest rates. The group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

As at the reporting date, the group had the following variable rate borrowings outstanding:

Consolidated	30 June 2018 Weighted average interest rate %	30 June 2018 Balance US$	30 June 2017 Weighted average interest rate %	30 June 2017 Balance US$
Financial liability - Revolver Loan	5.50%	10,000,000	-	-
Financial liability - Benefit Street Partners	11.23%	56,070,994	10.05%	45,689,888
Financial liability - Senior Debt	11.34%	111,581,820	-	-
Net exposure to cash flow interest rate risk		177,652,814		45,689,888

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

The effect on profit and equity as a result of changes in the interest rate, on the assumption that all other variables remain unchanged, is as follows:

Consolidated - 30 June 2018	Basis points increase Basis points change	Effect on profit before tax	Effect on equity	Basis points decrease Basis points change	Effect on profit before tax	Effect on equity
Financial liability - Revolver Loan	100	(50,645)	(50,645)	(100)	50,645	50,645
Financial liability - Benefit Street Partners	100	(472,642)	(472,642)	(100)	472,642	472,642
Financial liability - Senior Debt	100	(629,635)	(629,635)	(100)	629,635	629,635
		(1,152,922)	(1,152,922)		1,152,922	1,152,922

Note 28. Financial risk management and instruments (continued)

	Basis points increase			Basis points decrease		
Consolidated - 30 June 2017	**Basis points change**	**Effect on profit before tax US$**	**Effect on equity US$**	**Basis points change**	**Effect on profit before tax US$**	**Effect on equity US$**
Financial liability - Benefit Street Partners	100	(9,778)	(9,778)	(100)	9,778	9,778

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The group does not hold any collateral.

Liquidity risk

Vigilant liquidity risk management requires the group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	30 June 2018 US$	**30 June 2017 US$**
Borrowings - Revolver Loan	10,000,000	-
Borrowings - Benefit Street Partners	-	1,739,135
Borrowings - Senior Debt	3,750,000	-
	13,750,000	1,739,135

Note 28. Financial risk management and instruments (continued)

Remaining contractual maturities
The following tables detail the group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities. Therefore, these totals may differ from their carrying amount in the statement of financial position. For the convertible loans, it assumes monthly capitalisation of interest payments.

Consolidated - 30 June 2018	**Weighted average interest rate %**	**1 year or less US$**	**Between 1 and 2 years US$**	**Between 2 and 5 years US$**	**Over 5 years US$**	**Remaining contractual maturities US$**
Non-derivatives						
Non-interest bearing						
Trade payables	-	3,894,006	-	-	-	3,894,006
Interest payable	-	576,713	-	-	-	576,713
Interest-bearing - variable						
Borrowings - Revolver Loan	5.50%	643,876	554,495	10,665,394	-	11,863,765
Borrowings - Benefit Street Partners	11.23%	16,734,909	48,103,609	-	-	64,838,518
Borrowings - Senior Debt	11.34%	23,202,592	25,837,292	79,187,175	-	128,227,059
Interest-bearing - fixed rate						
Borrowings - Convertible Notes	11.00%	1,569,628	15,582,249	-	-	17,151,877
Lease liability	18.00%	2,061	8,505	-	-	10,566
Total non-derivatives		46,623,785	90,086,150	89,852,569	-	226,562,504

Consolidated - 30 June 2017	**Weighted average interest rate %**	**1 year or less US$**	**Between 1 and 2 years US$**	**Between 2 and 5 years US$**	**Over 5 years US$**	**Remaining contractual maturities US$**
Non-derivatives						
Non-interest bearing						
Trade payables	-	3,865,148	-	-	-	3,865,148
Other payable - BIA Crow Tribe	-	347,671	-	-	-	347,671
Interest-bearing - variable						
Borrowings - Benefit Street Partners	10.05%	6,732,300	16,057,900	29,631,988	-	52,422,188
Interest-bearing - fixed rate						
Convertible Notes	11.00%	-	-	14,405,028	-	14,405,028
Lease liability	18.00%	3,702	10,890	-	-	14,592
Total non-derivatives		10,948,821	16,068,790	44,037,016	-	71,054,627

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above. The convertible loans can be converted to shares in the company at the end of the 12 months term.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 29. Fair value measurement

Fair value hierarchy

The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 30 June 2018	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Derivative financial instruments	-	315,232	-	315,232
Total assets	-	315,232	-	315,232
Liabilities				
Preferred Stock - Debt	-	62,354,767	-	62,354,767
Derivative financial instruments liability - Aneth	-	57,848,648	-	57,848,648
Derivative financial instruments - convertible notes	-	1,368,783	-	1,368,783
Derivatives financial instruments - Aneth CO_2	-	854,718	-	854,718
Contingent consideration liability	-	22,300,000	-	22,300,000
Total liabilities	-	144,726,916	-	144,726,916

Consolidated - 30 June 2017	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets				
Derivative financial instruments	-	3,884,974	-	3,884,974
Total assets	-	3,884,974	-	3,884,974
Liabilities				
Derivative financial instruments - convertible notes	-	3,603,337	-	3,603,337
Total liabilities	-	3,603,337	-	3,603,337

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. Unless otherwise stated, the carrying amounts of the financial liabilities reflect their fair value.

Note 29. Fair value measurement (continued)

Significant accounting policy

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Critical accounting judgements, estimates and assumptions

Derivative financial instruments
The fair values of derivative instruments are initially recognised at fair value on the date at which the derivative contracts are entered into and subsequently remeasured to fair value. On subsequent revaluation the derivatives are carried as assets when their fair value is positive and liabilities when their fair value is negative.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Note 30. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

	Consolidated	
	30 June 2018 **US$**	**30 June 2017** **US$**
Short-term employee benefits	2,272,913	1,751,314
Post-employment benefits	58,293	76,755
Long-term benefits	383,160	188,712
Share-based payments	638,605	822,616
	3,352,971	2,839,397

Note 31. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the company, its network firms and unrelated firms:

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Audit services - KPMG		
Audit or review of the Group and subsidiaries financial statements	427,204	-
Audit services - BDO East Coast Partnership		
Audit or review of the financial statements	94,721	67,377
Audit services - unrelated firms		
Audit or review of the financial statements	37,050	34,000

Note 32. Commitments

	Consolidated 30 June 2018 US$	Consolidated 30 June 2017 US$
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	591,367	128,800
One to five years	2,800,240	65,041
	3,391,607	193,841
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	2,061	3,702
One to five years	8,505	10,890
Total commitment	10,566	14,592
Less: Future finance charges	-	-
Net commitment recognised as liabilities	10,566	14,592
Representing:		
Lease liability - current (note 16)	2,061	3,702
Lease liability - non-current (note 19)	8,505	10,890
	10,566	14,592

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

ORRI and NPI royalty commitments (refer to Note 22) are met through production from Madden.

Note 33. Related party transactions

Parent entity
Elk Petroleum Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 36.

Note 33. Related party transactions (continued)

Joint operations
Interests in joint operations are set out in note 37.

Key management personnel
Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

Transactions with related parties
Franks & Associates Pty Ltd, a company in which D Franks and A Bursill are director and principal respectively, were paid company secretarial and accounting fees of $167,043 (2017: $139,192), excluding GST and out-of-pocket expenses, during the year. Fees are charged on arms length terms.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 34. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	30 June 2018 US$	**30 June 2017 US$**
Loss after income tax	(57,257,550)	(6,791,976)
Total comprehensive loss	(57,257,550)	(6,791,976)

Statement of financial position

	Parent	
	30 June 2018 US$	**30 June 2017 US$**
Total current assets	7,611,741	3,653,201
Total assets	8,370,110	36,680,502
Total current liabilities	987,161	755,317
Total liabilities	13,508,822	14,503,265
Equity		
Issued capital	95,045,733	63,454,564
Foreign currency reserve	6,809,053	8,376,235
Share-based payments reserve	1,612,368	2,975,198
Accumulated losses	(108,605,866)	(52,628,760)
Total equity/(deficiency)	(5,138,712)	22,177,237

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity have the following guarantees entered:

Note 34. Parent entity information (continued)

30 June 18

- Guaranty Agreement, by Elk Petroleum Ltd in favour of BSP Agency, LLC as the administrative agent dated August 5, 2016
- Guaranty Agreement made by Elk Petroleum Ltd in favour of HPS Investment Partners, LLC, as Administrative Agent dated November 6, 2017
- Guaranty Agreement made by Elk Petroleum Ltd in favour of CrossFirst Bank dated November 6, 2017.

30 June 17:

- Guaranty Agreement, by Elk Petroleum Ltd in favour of BSP Agency, LLC as the administrative agent dated August 5, 2016

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at as 30 June 2018 and 30 June 2017

Note 35. 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 CO_2 EOR projects in the Rocky Mountains with a 30-year operating history and ~450 million barrels cumulative production to date.

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.

Note 35. Business combinations (continued)

Details of the acquisition are as follows:

	Fair value US$
Plant and equipment	481,004
Oil and gas properties	161,423,415
Restricted cash	22,093,127
Rehabilitation costs - non-current	(11,257,415)
Net assets acquired	172,740,131
Goodwill	-
Acquisition-date fair value of the total consideration transferred	172,740,131
Representing:	
Cash paid or payable to vendor	160,000,000
Contingent consideration	12,740,131
	172,740,131
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$12.7 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:	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 year ended 30 June 2018, Resolute Aneth, LLC contributed US$75.3 million to group revenues and US$56.0 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 year ended 30 June 2018 would have been revenue of US$104.5 million and a consolidated loss before tax of $50.6 million.

Significant accounting policy

Business combination

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.

Note 35. Business combinations (continued)

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 36. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Ownership interest	
Name	**Principal place of business / Country of incorporation**	**30 June 2018 %**	**30 June 2017 %**
Elk Petroleum Inc.	USA	100.00%	100.00%
Grieve Pipeline, LLC*	USA	100.00%	100.00%
North Grieve, LLC *	USA	100.00%	100.00%
Elk Operating Services, LLC *	USA	100.00%	100.00%
Elk Operating Company LLC *	USA	100.00%	100.00%
Elk Grieve project, LLC *	USA	100.00%	100.00%
Singleton EOR Project, LLC *	USA	100.00%	100.00%
Elk Petroleum Madden Gas and CO2 LLC *	USA	100.00%	100.00%
Elk Petroleum Aneth, LLC *	USA	100.00%	-
Resolute Aneth, LLC *	USA	100.00%	-

* Subsidiaries of Elk Petroleum Inc.

Note 37. Interests in joint operations

Grieve unit
During the first half of Financial Year 2017, the Company completed a comprehensive commercial restructuring of the joint venture and development arrangements for the Grieve Project with our joint venture partner, Denbury Resources Inc. (“Denbury”). The restructuring resulted in Elk’s ownership interest in the project increasing from 35% to 49%. The restructure also saw the elimination of approximately US$20 million in non-recourse project debt funding provided by Denbury. The key terms of the restructure between Elk and Denbury are:

- Elk’s working interest in the Grieve Project increased to 49% with the right to receive 70% of the net operating cash flow from the first 2 million barrels of production;

- Denbury retained Operatorship of the Grieve Project JV and provided a firm commitment to complete the Grieve CO_2 EOR Project development pursuant to a fixed price turnkey contract containing a detailed field development and execution plan with fixed completion milestones;

- Under the fixed price turnkey contract, Elk funded US$55 million to complete the development of the Grieve Project with Denbury to cover any cost overruns;

- Denbury will supply, at no cost to Elk all the CO_2 to be injected into the Grieve field required to reach first oil production and any additional CO_2 up to 82 BCF will be provided on advantageous commercial terms at Denbury’s cost of CO_2;

- All of the oil production from the Grieve Project will be shipped via Elk’s 100%-owned and operated Grieve Oil Pipeline under a binding long-term regulated pipeline tariff at a haulage charge of US$3.00 per barrel;

- Denbury has transferred to Elk a 49% interest in all Grieve Project assets (Plant, Machinery, Infrastructure) with an estimated value of approximately US$60 million;

- Denbury forgave recovery from Elk 100% of Grieve Project funding indebtedness with an estimated amount of US$20 million associated with the prior joint venture funding arrangements; and

- Elk and Denbury entered a binding settlement agreement under which all prior claims arising out of the original Grieve Project JV arrangements have been released including legal claims included in the civil lawsuit which the parties previously withdrew pending negotiating a commercial settlement.

Madden unit
The Madden Gas Field and the Lost Cabin Gas Plant are in Natrona and Freemont counties, Wyoming approximately 95 kms (60 miles) from Elk’s Grieve CO_2 enhanced oil recovery project. Elk owns a ~14% non-operating working interest (excluding net profits interests granted in connection with the issuance of preferred equity) in the Madden Gas Field and the Lost Cabin Gas Plant and associated gas gathering pipeline systems. The Madden Gas Field and the Lost Cabin Gas Plant is operated by Conoco Phillips (46%) and the balance of the unit and gas plant is owned by Moncrief Oil (30%) and various other private interest holders.

Aneth
During the first half of Financial Year 2018, the Company acquired ~63% operated working interest in the Greater Aneth Field. The balance of the Greater Aneth Field is owned by the Navajo Nation Oil and Gas Company ("NNOGC").

Note 38. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 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 39. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Loss after income tax expense for the year	(109,003,622)	(8,117,522)
Adjustments for:		
Share-based payments	748,368	1,153,891
Foreign exchange differences	-	555,288
Impairment of assets	14,976,002	-
Depreciation, amortisation and depletion	11,329,980	1,376,748
Loss on derivatives - oil - unrealised	61,744,525	522,191
Gain on derivatives - convertible notes	(1,907,805)	(686,881)
Loss on asset disposal	-	1,050
Loss on contingent consideration	9,560,000	-
Finance costs	7,496,983	442,842
Aneth transactions - non-cash	1,543,200	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(11,641,534)	(1,110,628)
Increase in trade and other payables	11,419,403	2,779,051
Net cash used in operating activities	(3,734,500)	(3,083,970)

Note 40. Earnings per share

	Consolidated	
	30 June 2018 US$	30 June 2017 US$
Loss after income tax attributable to the owners of Elk Petroleum Limited	(109,003,622)	(8,117,522)
	Number	Number
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,218,823,647	819,895,342
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,218,823,647	819,895,342
	US Cents	US Cents
Basic earnings (loss) per share	(8.9)	(1.0)
Diluted earnings per share	(8.9)	(1.0)

Significant accounting policies

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Elk Petroleum Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 41. Share-based payments

The company has an employee share option plan, an employee incentive performance and retention rights plan and a non-executive director and advisor rights plan. The objective of the plans are to assist in the recruitment, reward, retention and motivation of non-executives and employees of Elk Petroleum and its subsidiaries.

Under the option plan, directors and employees are invited to participate in the plan and receive options. An individual may receive the options or nominate a relative or associate to receive them.

Under the performance and retention rights plans, rights are not transferrable. The measurement periods are over the 3 years following the commencement date for each grant of performance rights, at the end of which the Board will determine the extent to which vesting has been achieved (the vested rights) in relation to each tranche. Any retention rights or performance rights that do not vest will be forfeited.

The performance rights vest on achievement of specific performance objectives including Compound Annual Growth Rate of Total Shareholder Return achieved by the company over the 3 years following the commencement date for each grant of performance rights.

The retention rights vest to ordinary shares based on completion of 3 years of service. Generally, if service ceased before completion of 3 years of service, none of the retention rights vest whereas if service is continuous until completion of 3 years of service, then 100% of the retention rights will vest.

Performance rights

Performance rights are issued to non-executive directors and employees under the non-executive director and advisor rights and employee incentive rights plans.

Performance rights are issued for nil consideration and will vest after three years to ordinary shares based on market based performance conditions.

Set out below are summaries of performance rights granted under the plan:

30 June 2018

Grant date	Expiry date	Balance at the start of the year	Granted	Vested	Lapsed	Balance at the end of the year
30/11/2013	30/06/2018	2,000,000	-	-	(2,000,000)	-
30/06/2016	30/06/2018	1,810,000	-	-	(1,810,000)	-
20/12/2016	30/06/2018	60,000	-	-	(60,000)	-
20/12/2016	30/06/2019	4,260,000	-	-	-	4,260,000
08/12/2017	30/06/2020	-	4,675,000	-	-	4,675,000
		8,130,000	4,675,000	-	(3,870,000)	8,935,000

30 June 2017

Grant date	Expiry date	Balance at the start of the year	Granted	Vested	Lapsed	Balance at the end of the year
30/11/2013	30/06/2017	2,000,000	-	-	(2,000,000)	-
30/11/2013	30/06/2018	2,000,000	-	-	-	2,000,000
05/09/2014	30/06/2017	2,706,388	-	-	(2,706,388)	-
18/12/2014	30/06/2017	126,731	-	-	(126,731)	-
30/06/2016	30/06/2018	1,810,000	-	-	-	1,810,000
20/12/2016	30/06/2018	-	60,000	-	-	60,000
20/12/2016	30/06/2019	-	4,260,000	-	-	4,260,000
		8,643,119	4,320,000	-	(4,833,119)	8,130,000

Note 41. Share-based payments (continued)

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.52 years (2017: 1.52 years).

The calculation used to determine the fair value of the performance rights at the grant date assumes a discount of 60% on the value of Elk's share price to reflect the probability of meeting the market based vesting condition.

Retention rights

Retention rights are issued to non-executive directors and employees under the non-executive director and advisor rights and employee incentive rights plans.

Retention rights are issued for nil consideration and will vest after three years to ordinary shares based on continuity of employment conditions.

Set out below are summaries of retention rights granted under the plan:

30 June 2018

Grant date	Expiry date	Balance at the start of the year	Granted	Vested	Lapsed	Balance at the end of the year
30/06/2016	30/06/2018	183,595	-	(183,595)	-	-
20/12/2016	30/06/2019	475,000	-	-	-	475,000
08/12/2017	30/06/2020	-	1,425,000	-	-	1,425,000
		658,595	1,425,000	(183,595)	-	1,900,000

30 June 2017

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Lapsed	Balance at the end of the year
05/09/2014	30/06/2017	510,000	-	(510,000)	-	-
18/12/2014	30/06/2017	226,286	-	(209,680)	(16,606)	-
30/06/2016	30/06/2018	195,000	-	-	(11,405)	183,595
20/12/2016	30/06/2019	-	475,000	-	-	475,000
		931,286	475,000	(719,680)	(28,011)	658,595

The weighted average remaining contractual life of retention rights outstanding at the end of the financial year was 1.75 years (2017: 1.72 years).

The value of the right is the value of an underlying share in Elk as traded on ASX at the date of issue of the rights.

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Fair value at grant date
08/12/2017	30/06/2020	A$0.064	A$0.032

For the retention rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Fair value at grant date
08/12/2017	30/06/2020	A$0.064	A$0.064

Note 41. Share-based payments (continued)

Significant accounting policies

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Critical accounting judgments, estimates and assumptions.

Share-based payment transactions
The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Note 42. Other accounting policies

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Elk Petroleum Ltd ('company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Elk Petroleum Ltd and its subsidiaries together are referred to in these financial statements as the 'group'.

Note 42. Other accounting policies (continued)

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign currency translation

The financial statements are presented in US dollars. Elk Petroleum Ltd.'s functional currency is denominated in Australian Dollars. For the subsidiaries located in the United States of America, these entities' functional currency are denominated in US Dollars.

Foreign currency transactions

Foreign currency transactions are translated into US Dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into US dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into US dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Financial instruments and other financial assets

Financial assets are recognised at fair value through profit or loss. Assets in this category are classified as current assets if they are held for trading or are expected to be realised within 12 months of the reporting date.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Note 42. Other accounting policies (continued)

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Note 42. Other accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Exploration and evaluation

Exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

All exploration expenditure in relation to directly attributable general administration costs, geological and geophysical costs, seismic and pre-licence costs is expensed in the statement of comprehensive income as incurred.

Exploration and evaluation assets are recognised in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and

- at least one of the following conditions is also met:

(i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

(ii) exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

For exploration wells, costs directly associated with drilling the wells are initially capitalised pending the evaluation of whether potentially economic reserves of hydrocarbons have been discovered. If no recoverable hydrocarbons are identified, or hydrocarbons are deemed not commercial, then the capitalised costs are to be expensed.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to Oil and Gas Assets.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2018. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. The Group will adopt this standard from 1 July 2018 and based on initial assessment, the financial instruments is unlikely to be materially different from the amount currently disclosed in the financial statements.

Note 42. Other accounting policies (continued)

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018 and during the year the Group has undertaken a high level review of its material revenue contracts against the requirements of AASB 15. From this assessment the Group does not expect there to be a material impact on the adoption of the new standard.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The management has not yet determined to what extent these commitments will result in the recognition of an asset and liability for future payments and how this will affect the group’s profit and classification of cash flows.

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Neale Taylor
Chairman

28 September 2018
Sydney

Independent Auditor's Report

To the shareholders of Elk Petroleum Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Elk Petroleum Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2018;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1, "Significant accounting policies" in the financial report. The conditions disclosed in Note 1, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Analysing the cash flow projections by:
  - Evaluating the underlying data used to generate the projections for consistency with other information tested by us, our understanding of the Group's intentions, and past results and practices;
  - Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of recent loss making operations, results since year end, and our understanding of the business, industry and economic conditions of the Group;
- Assessing significant non-routine forecast cash inflows and outflows for feasibility, quantum and timing. We used our knowledge of the client and its industry to assess the level of associated uncertainty.
- Reading correspondence with existing and potential financiers to understand the financing options available to the Group, and assess the level of associated uncertainty resulting from renegotiation of existing debt facilities, waivers in meeting financial loan covenants and negotiation of additional/revised funding arrangements;
- Reading Directors minutes and relevant correspondence with the Group's advisors to understand the Group's ability to raise additional shareholder funds, and assess the level of associated uncertainty;
- Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. We specifically focused on the principle matters giving rise to the material uncertainty.

Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern section*, we have determined the matters described below to be the ***Key Audit Matters***:

- Carrying value of oil and gas properties
- Purchase price allocation (PPA) accounting relating to Resolute Aneth LLP acquisition
- Accounting treatment and valuation of preferred stock

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of oil and gas properties (US$239.5m)	
Refer to Note 13 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group's oil and gas properties are a significant portion of the Group's total assets. The recoverable value of oil and gas properties is based on a net present value model for each cash generating unit ('CGU'), and is a key audit matter due to: • The high level of judgement used in evaluating key assumptions applied by the Group in each net present value model, which are affected by expected future operating performance and market conditions, including: – The level of resources and reserves as reported in the Group's Reserves Statement capable of being produced economically; – The forecast cost of developing areas of interest and producing oil and gas; – Future production volumes and timing; and – The specific discount rate applied in each model. These forward looking assumptions necessitate additional scrutiny by us due to the inherent uncertainties in estimating these assumptions, the consistency of application and the decline in oil price increasing the risk of inaccurate forecasting. • The sensitivity of the net present value model to changes in assumptions such as commodity prices and discount rate, reducing available headroom.	Our procedures included: • Obtaining an understanding of the key controls associated with the preparation of the net present valuation models used to assess the recoverable amount of each CGU; • Evaluating the net present value valuation methodology used by the Group for consistency with the requirements of the Accounting Standards; • Evaluating the Group's determination of CGUs based on our understanding of the operations of the Group's business and each area of interest, impact of the Aneth acquisition, and how independent cash inflows were generated, against the requirements of the accounting standards; • Critically evaluating the Group's key assumptions used to determine the recoverable amount of key CGUs relating to commodity prices, and discount rate based on our knowledge of the industry, publicly available data of comparable entities, and published forecast price expectations of industry commentators ; • Considering the sensitivity of the models by varying key assumptions such as commodity price and discount rate within a reasonably possible range to identify those CGUs at higher risk of impairment and to focus our further procedures; • Checking the forecast cost of developing areas of interest and producing oil and gas, future production volumes and timing to those within the Reserves Statement, Board approved plans and budgets. We assessed these against our understanding of the business and industry trends; • Assessing the historical accuracy of budgeting and forecasting by the Group to inform our evaluation of forecasts incorporated in the models ;

In addition to the above, the Group recorded an impairment charge of $13.6 million against Oil and Gas Properties as a result of the decline in the Groups interest in Madden reserves and oil price decline impacting future cash flows of the Madden field. This increased the sensitivity of the net present value model and further increased our audit effort in this area.	• Evaluating the scope, competence, and objectivity of the Group's external experts engaged to assist the Group prepare the Group's Reserves Statement as utilised within the net present value model; • Recalculating the impairment charge against the recorded amount disclosed; • Assessing the financial report disclosures to our understanding and the requirements of the accounting standards.

Purchase price allocation (PPA) accounting relating to Resolute Aneth LLP acquisition (US$172.7m)

Refer to Note 35 to the Financial Report

The key audit matter	**How the matter was addressed in our audit**
The Group's acquisition of Resolute Aneth LLP for consideration of US$172.7 million was completed on 1 November 2017. The PPA accounting is a Key Audit Matter due to the: • Size of the acquisition having a pervasive impact on the financial statements; • Complexity of the terms and conditions in the master purchase agreement and associated agreements; • Significant effort required to audit the key assumptions and valuation methodologies applied to oil and gas properties and rehabilitation provisions assumed as part of the acquisition; • Significant effort required to assess the fair value of 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 date of acquisition. These conditions and associated complex acquisition accounting required significant audit effort and greater involvement by senior team members and our valuation specialists.	Our procedures included: • Reading the master purchase agreement and associated agreements related to the acquisition to understand the structure, key terms and conditions, and nature of contingent consideration. • Assessing the objectivity, competence, and scope of the external valuation expert engaged by the Group to assess fair value of oil and gas properties and contingent consideration. • Assessing and challenging the key assumptions used in the PPA to value oil and gas properties. This involved: – working with our valuation specialists to assess the appropriateness of the discount rate based on publicly available data of comparable entities; – comparing commodity pricing to published forecast price expectations of industry commentators; – comparing the Group's external valuation expert's methodology to accepted industry practice and the requirements of the accounting standards.

- Assessing and challenging the key assumptions used in the PPA to value the rehabilitation provision. This involved:
    - comparing the Groups key assumptions such as inflation rate to publically available data, and discount rate to industry comparable entities
    - agreeing life of well cashflows and rehabilitation to reserve statements prepared by the Groups external reserve experts;
    - comparing the Group's estimated cost of reclamation of the obligation to third party cost estimates within the respective regions.
- Working with our valuation specialists to assess the key assumptions used in the Group's determination of the fair value measurement of contingent consideration. This involved:
    - checking key inputs from the Group's calculation of the contingent consideration to the master purchase agreement and associated agreements;
    - comparing WTI crude oil closing spot price to published forecast price expectations of industry commentators; and
    - checking the mathematical accuracy of the net present value of future expected payments.
- Assessing the Group's disclosures of the quantitative and qualitative considerations in relation to the Group's acquisition, by comparing these disclosures to our understanding of the acquisition and the requirements of the accounting standards.

Accounting treatment and valuation of preferred stock (US$62.4m)	
Refer to Note 22 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
As part of the Company's funding for the acquisition of Aneth, the Company entered into a Preferred Stock Purchase Agreement dated 6 November 2017. The accounting treatment of the preferred stock purchase agreement and valuation of the associated preferred stock is a Key Audit Matter due to the: • Complexity of the terms and conditions in the preferred stock purchase agreement and associated agreements; • Level of effort in assessing the fair value and appropriate accounting treatment of preferred stock; and • Significant effort required to audit the key assumptions in the valuation of the preferred stock specifically the discount rate. These conditions and the associated complex accounting required significant audit effort and greater involvement by senior team members and our valuation specialists.	Our procedures included: • Reading the preferred stock purchase agreement and associated agreements to understand the structure, key terms and conditions of the transaction. • Assessing the appropriateness of the presentation of the preferred stock based on requirements of the accounting standards; • Assessing the objectivity, competence, and scope of the external valuation expert engaged by the Group to perform the valuation of the preferred stock. • Assessing the appropriateness of the valuation methodology used by the Group's external valuation expert to value the preferred stock against the requirements of applicable accounting standards; • Working with our valuation specialists to challenge the key assumptions used to value the preferred stock. This involved analysing the Group's discount rate used in the valuation against publicly available data of a group of comparable entities; • Assessing the Group's disclosures of the quantitative and qualitative considerations in relation to the preferred stock, by comparing these disclosures to our understanding of the transaction and the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Elk Petroleum Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Elk Petroleum Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 13 - 35 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Daniel Camilleri

Partner

Sydney

28 September 2018

The shareholder information set out below was applicable as at 14 September 2018

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

Range	Ordinary Shares	Unlisted Options Exercise price $0.08, Expiry 30/04/2020	Unlisted Options Exercise price $0.10, Expiry 30/04/2020	Unlisted Options Exercise price $0.11, Expiry 30/04/2020	Unlisted Options Exercise price $0.12,Expiry 30/04/2020
1 to 1,000	153	-	-	-	-
1,001 to 5,000	240	-	-	-	-
5,001 to 10,000	210	-	-	-	-
10,001 to 100,000	561	-	-	-	-
100,001 and over	392	1	1	1	1
	1,556	1	1	1	1
Holding less than a marketable parcel	457	-	-	-	-

Range	Performance Rights 2016, Expiry 30/06/2019	Performance Rights 2017, Expiry 30/06/2020	Retention Rights 2016, Expiry 30/06/2019	Retention Rights 2017, Expiry 30/06/2020
1 to 1,000				
1,001 to 5,000	-	-	-	-
5,001 to 10,000	-	-	-	-
10,001 to 100,000	-	-	1	-
100,001 and over	6	5	3	3
	6	5	4	3

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	687,785,553	42.51
CITICORP NOMINEES PTY LIMITED	99,615,155	6.16
MR ROBERT ANTHONY HEALY	70,600,000	4.36
CHNG SENG CHYE	57,292,581	3.54
J P MORGAN NOMINEES AUSTRALIA LIMITED	51,323,812	3.17
ARMADA TRADING PTY LTD	40,229,081	2.49
BNP PARIBAS NOMS PTY LTD (DRP)	27,434,685	1.70
TRUEBELL CAPITAL PTY LTD (TRUEBELL INVESTMENT FUND)	27,407,033	1.69
TEO PENG KWANG	25,887,004	1.60
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	22,998,614	1.42
BEGLEY SUPERANNUATION CO PTY LTD (BEGLEY ENGINEERING S/F A/C)	22,629,760	1.40
MS TRACEY LEANNE MARSHALL	17,456,945	1.08
PINWILLOW PTY LIMITED (ARB PERSONAL SUPER FUND A/C)	16,129,032	1.00
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED (NO 1 ACCOUNT)	14,420,957	0.89
IJD INVESTMENTS PTY LTD (IJD A/C)	13,698,630	0.85
CHOW SHOOK LIN	11,491,936	0.71
CHNG SENG CHYE	10,230,000	0.63
EAST TIMOR TRADING LDA\C	10,205,479	0.63
LINK TRADERS (AUST) PTY LTD	10,000,000	0.62
MR BRADLEY WILLIAM LINGO	9,892,819	0.61
	1,246,729,076	77.06

Unquoted equity securities

	Number on issue	Number of holders
UNLISTED OPTIONS EXERCISE PRICE $0.08, EXPIRY 30/04/2020	4,250,000	1
UNLISTED OPTIONS EXERCISE PRICE $0.10, EXPIRY 30/04/2020	4,250,000	1
UNLISTED OPTIONS EXERCISE PRICE $0.11, EXPIRY 30/04/2020	4,250,000	1
UNLISTED OPTIONS EXERCISE PRICE $0.12, EXPIRY 30/04/2020	4,250,000	1

Holders of 20% or more of unquoted equity securities:

Name	Class	Number held
ODEON CAPITAL GROUP LLC	UNLISTED OPTIONS EXERCISE PRICE $0.08, EXPIRY 30/04/2020	4,250,000
ODEON CAPITAL GROUP LLC	UNLISTED OPTIONS EXERCISE PRICE $0.10, EXPIRY 30/04/2020	4,250,000
ODEON CAPITAL GROUP LLC	UNLISTED OPTIONS EXERCISE PRICE $0.11, EXPIRY 30/04/2020	4,250,000
ODEON CAPITAL GROUP LLC	UNLISTED OPTIONS EXERCISE PRICE $0.12, EXPIRY 30/04/2020	4,250,000

SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Ordinary shares Number held	Ordinary shares % of total shares issued
REPUBLIC INVESTMENT MANAGEMENT PTE. LTD.	287,241,225	17.75

VOTING RIGHTS

The voting rights are set out below:

Ordinary shares:
All ordinary shares carry one vote per share without restriction.

Options:
Options do not carry any voting rights

There are no other classes of equity securities.

ASX LISTING RULE 3.13.1 AND 14.3

The Annual General Meeting is scheduled to be held on 14 November 2018.

Directors	Neale Taylor (Chairman) Bradley Lingo (Managing Director and Chief Executive Officer) Jim Piccone (Executive Director) (appointed 2 February 2018) Russell Krause (Non-Executive Director) Timothy Hargreaves (Non-Executive Director)
Company secretary	David Franks and Andrew Bursill
Registered office	Suite 2 Level 10 70 Phillip Street Sydney NSW 2001 Telephone: +61 2 9299 9690
Principal place of business	Australian Square Level 40, Suite 4001 264 George Street Sydney NSW 2000 Tel : +61 2 9093 5400
Share register	Automic Level 29 201 Elizabeth Street Sydney NSW 2000
Auditor	KPMG Level 38, Tower Three, International Towers Sydney 300 Barangaroo Avenue
Stock exchange listing	Elk Petroleum Ltd shares are listed on the Australian Securities Exchange (ASX code: ELK).
Website	www.elkpet.com
Corporate Governance Statement	http://elkpet.com/about-elk/corporate-governance/

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