elk petroleum

ASX Announcement / Media Release

1 October 2018

FYE 2018 Results Highlights

Financial Highlights

- Total Revenues of US$95.1 million - up 1,835%
- Gross Profit of US$29.9 million / Adjusted 39.2 million
- Adjusted EBITDAX of US$13.5 million
- Adjusted Net Profit of US$1.4 million – up from prior year loss of US$6,740,774
- Year-end Cash Position of US$34.9 million – up 280%
- Realized Oil US$56.20/bbl after hedging and differentials

Production & Reserves

- Annual production reaches 2.6 mmboe – up 690%
- Total Proved Reserves of 40.3 mmboe – up 333%
- 2P Reserves exceed 52 mmboe – up over 250%
- Aneth Proved Reserves PV-10 of US$354.5 million – up 220% since November 2017 acquisition
- Aneth Proved Reserves PV10 reaches US$596.3 million at US$75/bbl WTI oil price
- Grieve 2P Reserves and expected production confirmed by YE2018 VSO independent reserves report

Operational Highlights

- Aneth development progressing with monobore and well deepening delivering incremental 830 BOPD
- McElmo Creek Central Production Facility Compression Expansion Project committed
- Aneth organic development projects provides road map for Proved Developed Reserves of 100 mmbbls
- Aneth Field Development Projects fully funded through FYE2019
- Grieve Project commences start-up and initial oil production during field de-watering phase

Elk Petroleum Limited (ASX Code: ELK) ("Elk" or the "Company") provides this summary of the key highlights from the FY2018 financial and operational results set out in the Company's Annual Statutory Financial Results and Annual Shareholder Review.

Financial Highlights

For full year FYE 2018, the Company delivered strong operational financial performance with Total Revenues of US$95.1 million with a statutory Gross Profit of US$29.9 million and adjusted Gross Profit of US$39.2 million, adjusted EBITDAX of US$13.5 million and adjusted Net Profit of US$1.4 million (with all adjusted results on an unaudited, non-IFRS basis).

Revenue

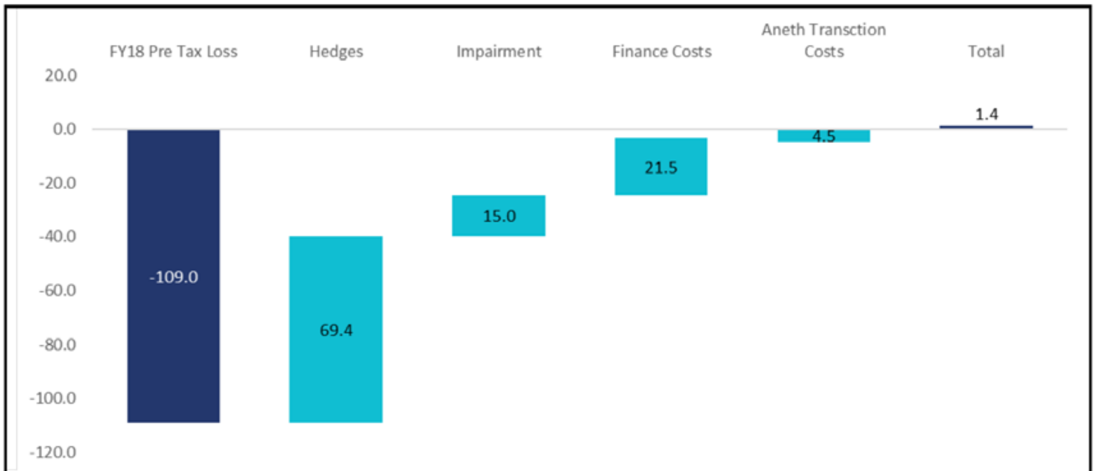
Completion of the Aneth acquisition in early November 2017 delivered significant increase in the Company's overall revenue generation for the financial year. The revenue impact of Aneth acquisition during the year contributed to:

- Increase of 1,835% increase in sales revenue to US$94.8 million and Total Revenue of US$95.1 million up from US$4.9 million in FY17;
- Total Aneth revenue for part year FY18 was US$75.3 million
- Total Madden revenue for full year FY18 was US$19.5 million of which US$16 million was gas
- Higher year-on-year oil production, average realised oil price for the year was US$56.2/bbl

Financial Profit and Loss

Off the back of this strong growth in Revenues, the Company delivered strong operational financial performance with Total Revenues of US$95.1 million with a statutory Gross Profit of US$29.9 million and adjusted Gross Profit of US$39.2 million, adjusted EBITDAX of US$13.5 million and adjusted Net Profit of US$1.4 million (with all adjusted results on an unaudited, non-IFRS basis).

FY2018 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

In spite these strong operational results, on a statutory basis, the Company incurred a Group loss of US$109 million in FY18. Key contributing factors to the Group's loss included noncash and one-off, non-recurring expenses associated with the Aneth acquisition including hedging impairment and Madden asset impairment (both noncash contributions), and cash costs associated with the Aneth acquisition, transition and financing and other impacts as detailed below:

- Impairment (non-cash) of Madden (related to granting NPI and ORRI associated with Aneth acquisition financing) and disposal of Singleton assets of US$15 million;
- Loss on derivatives (non-cash) related to Aneth future oil price swaps of US$69.4 million;
- One-off finance costs related to Aneth acquisition of US$21.5 million; and

- One-off Aneth acquisition and transition costs of US$4.5 million.

After accounting for these non-cash and/or one-off, non-recurring items, 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 graph above. For additional detail on the reconciliation of the statutory results and the adjusted unaudited, non-IFRS results please refer to the FY2018 statutory audited annual accounts which provide a comprehensive discussion of these adjustments.

Reserves and Production Growth

As with overall Revenues, completion of the Aneth acquisition in early November 2017 delivered significant increase in the Company's overall Proved reserves and oil production for the financial year. The impact of Aneth acquisition during the year contributed to a 690% increase in year-on-year production with full year production exceeding 2.6 mmboe – with this entire increase coming from increased oil production attributable to the Aneth acquisition.

Reserves and PV-10 Value Growth

Similarly, the Aneth acquisition has driven strong growth in the Company's overall Proved Reserves position. 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

Reserves for the Grieve Field were also confirmed by VSO Petroleum Consultants, Inc., in the Company's year-end Reserves audit, with Grieve 2P Reserves remaining unchanged at the field project level with net 2P reserves of 4.51 mmbbls net to Elk after taking into account of certain overriding royalties granted to Benefit Street Partners and AB Global associated with the Grieve Field development financing and the Aneth acquisition required to be accounted for under US GAAP accounting. Prior to the application of these accounting changes, the Company's Grieve 2P Reserves were 5.3 mmbbls prior to accounting for these overriding royalties.

VSO Petroleum Consultants also confirmed in the independent Reserves audit that the PV-10 value of the Grieve Project net to the Company is US$94.2 million at the NYMEX forward strip pricing as of 31 July

2018 and after the impact of these overriding royalties. Since the date of this report the NYMEX forward strip pricing has significantly increased nearly US$5/bbl from US$68.76/bbl to US$73.25/bbl and the shape of the NYMEX forward curve has significantly flattened out from its previous backwardation. Taking the Company's interest in the Aneth Oil Field and the Grieve Project together deliver a combined PV-10 net to the Company of between US$430 million to US$690 million.

Production Growth and Increased Production Margins

From a production perspective, the Aneth acquisition has delivered a significant year-on-year increase in production to a total of 2,636,373 bbls for FY 2018 up from 382,150 boe for FY2017 – up 690% year-on-year. All of this production growth has been delivered by the Aneth Oil Field acquisition. More importantly all of this growth in production is a growth in oil production which has a much higher realized sales price than that achieved from gas, sulphur and CO_2 production from the Madden Gas & CO_2 Field.

For the full year, oil production from the Aneth Oil Field achieved a realized oil price of US$56.20/bbl and by financial year-end a realized oil price of US$60.70/bbl after hedging and differentials as compared to an average realized gas price of US$11.70/boe for gas sales from the Madden Field. Overall the total operating margin for the Aneth Oil Field was US$39.6 million or approximately US$29.77/bbl – approximately a 53% operating margin.

Aneth Field Development Activities

Towards the end of FY2018, the Company commenced the execution of several field development projects in the Aneth Field aimed at increasing both Proved Developed Producing Reserves and current production. The two primary development projects are the McElmo Creek Well Deepening Project and the McElmo Creek CO_2 Compression Expansion Project. As previously announced, in June 2018, the Company secured a US$24 million increase in the Aneth Term Loan Facility from the Company's existing lenders and with this loan increase these development projects and associated projects are fully funded through completion and FY2019.

MCU Well Deepening Project

In June 2018, the Company commenced the first of several new Aneth production and Reserve growth projects for FY2019. The first of the projects is the McElmo Creek ("MCU") Well Deepening Project which was announced on 9 Jul 2018. This project has proceeded and delivered initial success with 8 production well deepenings completed with an average 30-day initial production rate of 77 BOPD per well. These well were delivered under budget for a gross CAPEX per completed and connected well deepening of US$668,000 (net to Elk US$421,000) per well – a saving of 31% under pre-execution budget. Overall the project is expected to deliver a 73% IRR. The remainder of the project is now focused on competing the deepening or stimulation and workover of associated water injection wells required to support the newly deepened production wells. This full project is expected to be successfully completed in the next several weeks.

In addition to the MCU Well Deepening Project, the Company has successfully completed the first monobore development well – the E-313 well which has achieved a stabilized production rate of 214 to 218 BOPD. This well was also delivered substantially under pre-execution budget. Together the MCU Well Deepening Project and the E-313 monobore project has delivered approximately gross 830 BOPD of production growth to the Aneth Field.

MCU CO_2 Recycle Compression Expansion Project

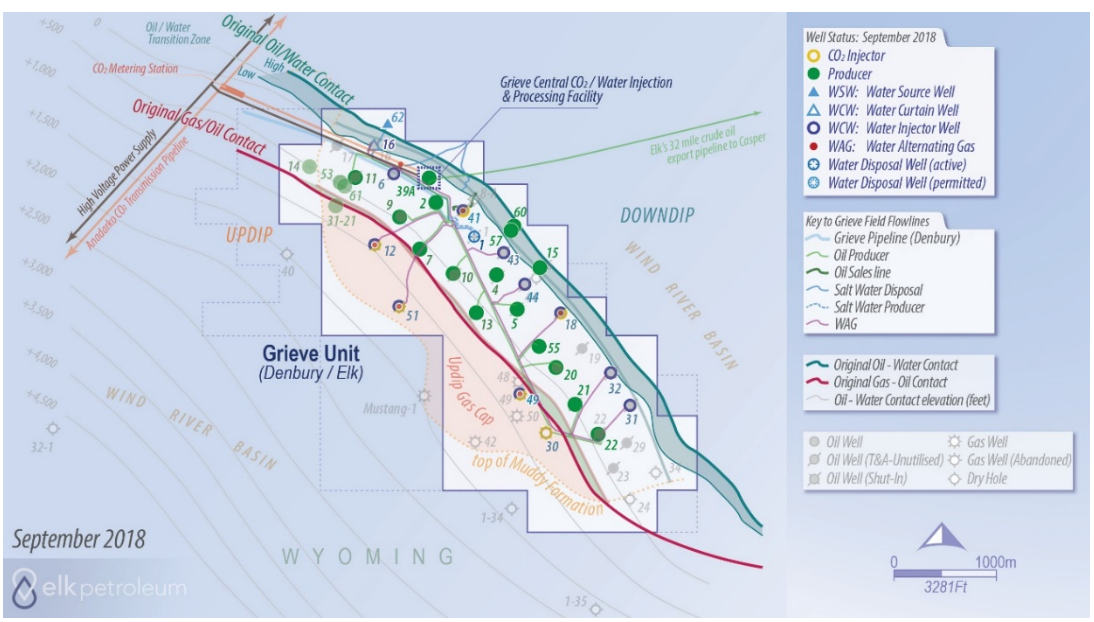
Also following the end of FY2018, the Company has committed to the McElmo Creek Unit CO_2 Recycle Compression Expansion Project following the completion of detailed pre-FID engineering and costing. This project will double the current CO_2 recycle compression capacity at the MCU Central Production Facility from approximately 20 mmscfd to 40 mmscfd. This is the first of three CO_2 recycle compression expansion phases planned for the MCU Central Production Facility. Overall the project has an expected gross cost of US$18.4 million (US$11.6 million net to Elk) and will take approximately 10-months to complete and the initial ordering of the long-lead compression equipment was made in mid-September. The project is expected to add 2.3 to 2.6 mmbbls of Proved Developed Producing Reserves net to the Company and have an IRR of 33% at US$70/bbl oil price (see Corporate Presentation released on ASX on 15 June 2018.

Grieve Field Operations

FY2018 saw both the completion of the development of the Grieve CO_2 EOR Project and the commencement of continuous production operations. Following the completion of the Grieve Oil Field development construction, on 17 April 2018, Denbury Resources commenced field start-up operations. By mid-June 2018, commissioning of the Grieve Central Production Facility and in-field facilities (wells and in-field flow-lines) had been completed and continuous, steady-state operations at the Central Production Facility had commenced. At year-end, the field was producing approximately 12,000 barrels of total fluids – water, oil and CO_2 – per day with most of this water production.

This high-level of water production is common place in the start-up phase of CO2 enhanced tertiary oil recovery projects as they transition from water-flood operations and as of FYE2018 the Grieve Field production was transitioning through this field de-watering phase. Currently the Grieve Field is continuing through this de-watering phase in advance of the injected CO2 flood phase migrating from the field's gas cap and into and through the residual oil zone portion of the Grieve reservoir.

Grieve Oil Field – Well Production Status during September 2018



To accelerate this dewatering phase, subsequent to the end of FY2018, the Grieve Joint Venture recompleted an existing, temporarily abandoned former production well in the field as a water disposal well and in mid-September 2018, this well became operational with approximately 4,000 barrels of water per day now disposed of in the Cloverly Formation, a deeper reservoir formation below the Grieve Field that has previously been used for water disposal during the primary production phase of the Grieve Field.

Production has continued to increase in the field and is currently running at over 14,000 barrels of total fluids with total oil production to date of 2,681 barrels of oil which has been transferred for future sale into the Grieve Oil Pipeline. More importantly as part of the FY2018 year-end independent reserve audit, VSO Petroleum Consultants, Inc. were asked to update the Grieve Project Reserves and to assess the impact of the dewatering start-up phase on the overall Reserves and expected production rates for the field and the CO_2 EOR Project taking into account the need for the field to go through the current dewatering phase and the need to disposal of a significant amount of produced water through the water disposal well.

Following review of the full field reservoir model and consultation with the field operator, VSO Petroleum Consultants concluded that the 2P Reserves net to Elk were unchanged and that the field would achieve its expected peak gross production rate of approximately 3,400 barrels of oil per day once the CO2 injected in the field and currently compressed in the field's natural gas cap into the residual oi bearing portion of the Grieve reservoir. Following detailed review of this work and consultation with the operator the Company believes that the dewatering phase is a short-term operational issue and as previously advised the Company remains confident that with significant dewatering occurring in the primary residual bearing oil reservoir significant oil production will begin to ramp up going forward over the coming months. As previously advised as part of providing overall production guidance, however, the Company is unable to provide precise guidance on the timing of this oil production ramp-up and the timing of achieving the peak production rate.

Continued Focus on Delivering Value for Shareholders

The Company remains focused on delivering shareholder value. Over the last year, the Company's share price has remained essentially flat although tremendous gains have been made in terms of reserves, production, revenues and operating cash flow as well as building the basis for sustained growth in each of these areas with capturing majority ownership and operation of the Aneth Oil Field.

There are a few key points that will help shareholders to fully comprehend the value that Elk has generated over the last year. As of the lodgement of the Company's FY2018 statutory accounts on 28 September 2018, the net asset value of Aneth alone after accounting for all the Company's outstanding indebtedness whether associated with Aneth, Grieve or Madden significantly exceeds the Company's current market capitalization.

As highlighted in the Annual Shareholder Review, in looking at the value of the Aneth Oil Field through the lens of the past, the story of the Resolute Energy August 2009 IPO during the global financial crisis is a telling one. When looking at the make-up of the Resolute business at the time of the 2009 IPO, the similarity to Elk's business today is striking with the mix of Aneth, Madden and Grieve having almost the same geographic footprint, reserve make-up and oil and gas production splits. As detailed in the Resolute IPO Case Study in the Shareholder Review, on a like-for-like basis given the almost identical business mix between Resolute in 2009 and Elk, today, this detailed comparison results in an Implied Equity Valuation net of outstanding debt on between US$219 to US$538 million.

One of the factors cited for the lack of recognition of the value generated by securing majority ownership and operation of the Aneth Oil Field and completing the Grieve Project, is the level of debt financing the Company has been carrying. The Company fully acknowledges this perspective and note that the use of debt to fund the Aneth acquisition and the development of the Grieve Project was the only means available to the Company to take these opportunities ahead and at the same time minimize shareholder dilution. As such the Company has now achieved a level of asset security and the reserve and production levels that will enable the Company to undertake a comprehensive refinancing of this debt.

Elk has several clear objectives that this refinancing is seeking to immediately deliver, including simplification of the capital structure, reduction of the cost debt capital, reduction in overall mandatory debt amortization and ultimately deliver greater cash flows to equity and our shareholders. As was announced in March of this year, the Company has a clear plan and timeline for achieving this and expects to be near completing this overall “corporatization” of the balance sheet by the time of the Annual General Meeting.

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ABOUT ELK PETROLEUM

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

COMPETENT PERSONS STATEMENT

The reserves and resources assessment follows the guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS). The Reserves in this announcement relating to the Aneth Oil Field and CO_2 EOR project are based on an independent reviews and audits conducted by Netherland, Sewell & Associates and fairly represents the information and supporting documentation reviewed. The Reserves in this announcement relating to the Grieve Oil Field and CO_2 EOR project are based on an independent reviews and audits conducted by VSO Petroleum Consultants, Inc. and fairly represents the information and supporting documentation reviewed. These reviews and audits were carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines. The Netherland, Sewell & Associates and VSO independent Reserve audits were prepared on a deterministic basis in accordance with U.S. Securities and Exchange Commission guidelines and standards consistent with existing U.S. oil and gas Reserve auditing and reporting standards and practice.

The information in this ASX release or presentation that relates to Reserve estimates for the Aneth Oil Field and CO_2 EOR project and have been compiled and prepared by Mr. David Evans, COO who is a qualified person as defined under the ASX Listing Rule 5.11 and both have consented to the use of the reserves figures in the form and context in which they appear in this presentation. Both Mr Evans and Mr. Dolan have relied upon and utilized the independent Reserve audits prepared by VSO.

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