elk petroleum

ASX Announcement / Media Release

23 January 2019

Operations Update

HIGHLIGHTS

- Grieve oil production has doubled since November AGM and continues to increase
- Aneth oil production sales averaged 9,942 BOPD for 4th Quarter CY2018
- Madden production significantly reduced due to fire in Lost Cabin Gas Plant Train 3

Elk Petroleum Limited (ASX Code: ELK) ("Elk" or the "Company") is pleased to provide an update on the ongoing Aneth, Grieve and Madden Field operational matters.

Aneth Oil Field Operations

Elk has been Operator of the Greater Aneth Field for a year, and as a new Operator, the Company celebrated 12 months with zero employee lost time injuries. This safety performance surpassed the former Operator for the preceding 12-month period and was achieved with 19,974 less man hours worked.

Greater Aneth Field oil production sales volumes have averaged 9,942 gross (5,385 net) barrels of oil production per day for the 4th Quarter CY2018 and since the beginning of January 2019 field level production has averaged 9,394 gross (5,082 net) barrels of oil production per day[1]. Both the Aneth and McElmo Creek Central Processing Plants continue to operate at high efficiency rates of 96% and 98% respectively. It is typical that winter field production rates are moderately lower than production rates throughout the balance of the year, however, due to extreme winter weather with unusually low temperatures throughout the Four Corners area, production rates in December 2018 and into early January were impacted. With some recent moderation in the weather, production levels are being restored to more normal levels, but the impact of extremely low temperatures are continuing to affect production operations. The McElmo Creek Well Deepening Projects completed in the 3rd quarter of CY2018 continue to deliver positive results with current production at 381 BOPD of gross incremental increased oil production.

[1] Note Greater Aneth Field production volumes are typically 1.5% higher than actual sales volumes realized at point of sale at the Gallup Refinery due to sales volume measurement conditions.

Grieve Project Operations Update

As previously reported on 24 December 2018, first oil sales commenced from the Grieve Project and since that time the Grieve Project has continued to produce with slowly increasing levels of oil production increasing to 200 barrels of oil per day doubling from the previously reported production levels reported at the November 2018 Annual General Meeting. The Grieve Central Processing Plant has been operating at 100% efficiency and is processing up to 22,000 barrels of total fluid per day (“BFPD) and is currently handling approximately 20,391 BFPD with an increasing oil cut coming from the production wells as a result of the CO_2 flood response. The Company is maintaining a significant focus on the operational performance of the Grieve Project and is in continuous dialogue with Denbury Resources as the operator of the project. As the Grieve Project is still in an early stage of CO_2 flood production response, the Company is maintaining its previously stated position that the Company will not provide any production guidance for the project until such time that the project has clearly demonstrated a significant stabilized production response from the CO_2 flood operation.

On the Grieve financial front, assuming a flat production rate, the Company estimates that the required additional funding requirements for the Grieve Project to cover principal and interest payments on the Grieve Project Loan and the Company’s share of Grieve Project operating costs through June 2019 is approximately US$18 million based on making principal amortization payments in February and April 2019 and monthly interest payments on the Grieve loan and maintaining the required minimum liquidity balance required under the Grieve loan which total approximately US$14.7 million. The balance of the funding requirements are for Grieve Oil Field and Grieve Pipeline operating costs. The outstanding principal amount of the Grieve Field Development Loan is approximately US$54 million before amortization payments scheduled for February and April 2019 and the loan reaches maturity in August 2019. The Company is currently evaluating options regarding the most appropriate means to meet these obligations.

Madden Deep Gas Field and Lost Cabin Gas Plant Operations

On 24 December 2018, the Company was advised by Conoco Phillips, as operator of the Madden Deep Gas Field and Lost Cabin Gas Plant that a fire had occurred in Train 3 Processing Plant of the Lost Cabin Gas Plant and as a result gas processing through Train 3 has been suspended. Gas processing through Train 2 Processing Plant of the Lost Cabin Gas Plant is unaffected by the fire in the Train 3 Processing Plant. When fully operational, the Lost Cabin Gas Plant has a total sales gas processing capacity of 150 mmscf/day with Train 3 accounting for approximately 115 mmscf/day of gross sales gas production and Train 2 accounting for approximately 35 mmscf/day of gross sales gas production. Following a preliminary assessment of the impact on the Train 3 Processing Plant, the Operator has now advised the Madden Joint Venture that it will likely require a minimum of 9 months to restore Train 3 operations and estimated the cost of repairs at a minimum of US$50 million.

The Company carries significant property and casualty insurance with a minimal deductible as well as business interruption coverage and has advised its insurers of the incident. Elk is continuing to work with its insurers on the exact scope and extent of the coverage as ConocoPhillips determines the cause of the incident. The Company estimates that this coverage will cover substantially all the Company's approximately 14% share of costs to repair the Train 3 Gas Processing Plant. Production from the Madden Shallow production intervals are gathered and processed through a separate stand-alone gathering pipeline network and processing plant with an installed sales gas capacity of 90 mmscf/day for handling low CO_2 gas production and are unaffected by the Train 3 Gas Processing Plant incident. Due to the current net profits interests relating to the EPI Series B Preferred Equity payments, the fire and loss of production is anticipated to have a minimal impact of the Company's financial performance for CY2019.

Elk's CEO, Brad Lingo commented: "This has been a particularly challenging period for the Company both on the operational as well as the financial fronts with the impact of lower oil prices and reduced production levels as the result of a number of wholly unrelated factors. Elk has an incredibly strong asset base in Aneth Oil Field and Madden Gas Field with low-decline rates and a compelling growth asset by the Grieve Field. We remain focused on meeting these challenges as they present themselves and have the confidence in the strength and quality of our long-life oil and gas production assets."

For further information, please contact:

Investor:
Brad Lingo
Managing Director/CEO
P: +61 2 9093 5400

E: ir@elkpet.com

ABOUT ELK PETROLEUM

Elk Petroleum Limited (ASX: ELK) is an oil and gas company specialising 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.