



## ASX Announcement / Media Release

26 March 2019

### Recapitalisation Proposal & Organisational Changes

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#### HIGHLIGHTS

- The Company has secured up to A\$4 million in funding from its major shareholder, Republic Investment Management (**Republic**), via an unsecured short term loan
  - The Company has agreed to a recapitalisation and transformation proposal from its major Shareholder, Republic, that includes the above Short-Term Loan and a proposed partially underwritten Rights Issue, totalling up to approximately A\$15 million
  - The proposal is to be supported by a number of Board and management changes to focus on the Company's immediate needs, manage an orderly restructuring and over time to allow Elk to realize the full potential of its underlying assets
  - The proposed underwriting obligations under the rights issue are intended to be subject to a number of conditions, principally relating to concessions and waivers being obtained from the Company's lenders in order to provide the breathing space to affect an orderly restructuring and recapitalization of the business. Due to the materiality of these concessions and waivers, and the Company's continuing requirements under the Chapter 12 of the Listing Rules, the Company intends to remain in voluntary suspension. The Company will provide an update on these negotiations on or before Friday, 19 April 2019
  - The purpose of this funding is to provide the company with sufficient capital to undertake an orderly restructuring of the business in the months ahead and overcome the difficulties the company is now facing
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**Elk Petroleum Limited (ASX Code: ELK)** ("Elk" or the "Company" or "EPL") advises that it has accepted a proposal from its largest shareholder, Republic Investment Management Pte Ltd (**Republic**), to recapitalise Elk via an unsecured short term loan (**Short Term Loan**) to be provided by Republic and/or additional financiers nominated by Republic and a proposed partially underwritten non-renounceable pro rata rights issue (**Rights Issue**) (together the **Proposal**).

Further details of the Proposal in respect of the Rights Issue and the Short Term Loan are set out below.

## Short Term Loan

Elk has entered into an agreement with Republic; under this agreement Republic (and any additional financiers nominated by Republic) (together, the **Financiers**) will provide unsecured short term interim loan funding to Elk of up to A\$4.0m to be comprised of:

- an initial advance of A\$0.5m (**Initial Advance**) to be provided on or around the date of this announcement;
- a second advance of A\$0.15 (**Second Advance**) to be provided one business day after Elk requests the second advance be provided; and
- a third advance of up to A\$3.35m (**Third Advance**) to be provided subject to Elk securing all required waivers and concessions from its existing lenders and nothing occurring which is reasonably likely to result in the Rights Issue not proceeding in the manner presently contemplated by the parties.

The Short Term Loan will be interest-free if the Rights Issue is completed on or prior to 25 June 2019 or otherwise the interest rate will be 20% per annum.

Elk is required to repay the Short Term Loan on the earlier of the date that is:

- 30 days after the issue of shares under the Rights Issue; and
- 25 June 2019.

The Initial Advance and Second Advance will be used to fund the payment of salaries of employees of Elk and essential corporate costs. The Third Advance will be used to fund:

- any additional capital and operating expenses and funding requirements in relation to the Grieve Project for the next 6 months;
- general working capital requirements of Elk, including but not limited to the payment of employee salaries and other general corporate expenses; and
- costs and expenses incurred by Elk in connection with the Rights Issue.

Under the Short Term Loan terms, for so long as monies remain owing under the Short Term Loan or Republic holds at least 10% of the issued shares in the Company (including where no monies remain owing under the Short Term Loan), Republic may nominate one person to be appointed as a director of the Company. For clarity, Republic has not as yet exercised this nomination right.

Additionally, Republic is entitled to recommend interim executives and/or advisers to be employed or engaged by Elk to assist the Elk board to develop a recapitalisation and business transformation plan and to assist with overseeing the proposed business turnaround of Elk and its subsidiaries. Republic has recommended the appointment of, and the Company intends to appoint, Mr Bruce Clement and Mr Stefan White as advisors to the Company and Elk Group as set out in further detail below.

The Short Term Loan contains terms and conditions which the Board considers to be customary for a short term unsecured loan, including in relation to non-payment and capitalisation of interest, gross-up provisions for any required deductions or withholding taxes, customary undertakings and restrictive covenants, reasonable access to Company books and records, representations and warranties, exclusivity, indemnities and default provisions.

### **Rights Issue**

The Company intends to launch in the next quarter a partially underwritten pro rata non-renounceable rights issue under which each eligible shareholder of the Company will be offered the opportunity to acquire new ordinary shares in the Company to raise up to approximately A\$15 million (“**Rights Issue**”). It is proposed that the Rights Issue will be partially underwritten by an Australian registered broker (for up to A\$12 million) and will be partially sub-underwritten by Republic and other sub-underwriters as agreed between Republic and the Company. The proposed underwriting will be subject to the Company securing an Australian registered broker to act as underwriter, satisfactory due diligence being undertaken and any necessary shareholder or regulatory approvals or waivers being obtained.

The Rights Issue will be non-renounceable, with the Company to engage in discussions and seek agreement from the ASX relating to its terms and conditions. Such terms required from the ASX may include prior shareholder approval for the Rights Issue.

Net proceeds of the Rights Offer will be applied for the same purposes as the Third Advance described above and will also be applied towards repayment of any advances made pursuant to the Short Term Loan.

The Company intends to release the full terms and conditions of the Rights Issue, including the timetable, to the market in due course, after consultation with the ASX.

### **Organisational Changes**

Additionally, the Company, in consultation with Republic, intends to make a number of Board and management changes to support Elk with its required recapitalisation and business transformation. These changes are summarised below:

- Mr Bruce Clement has been appointed as an advisor to support Mr Stefan White (see below) to implement the Group’s recapitalisation plan, work with management to help identify operational improvements, and help advise the company on potential US-based leadership appointments. Mr Clement’s background is provided in **Appendix A**; and
- Mr Stefan White has been appointed as an advisor to lead the Group’s negotiations with major lenders in relation to the Group’s debt arrangements over the coming weeks in light of the additional equity funds to be provided through the Rights Issue and possible future equity once the Company’s financial position is stabilised. Mr White’s background is provided in **Appendix B**;

- Mr Brad Lingo's employment agreement expires on 31 March 2019 and will not be extended; Mr Lingo will cease to be a Director on 31 March 2019 and will be retained as an adviser to the Company for 6 months after the expiry of his executive employment agreement;
- Mr Alex Hunter, Elk's former Chief Financial Officer, ceased employment with the Company on 15 March 2019;
- The Company expects to announce further Board and executive management enhancements in the weeks and months ahead.

These organisational changes will be supported by changes in the management structure of Elk's US based subsidiary, Elk Petroleum, Inc. (EPI).

### **Continued voluntary suspension**

In advance of the intended Rights Issue described above, the Company is seeking a number of concessions and waivers from the Company's existing lenders. These concessions include among other things, matters relating to capitalisation of interest payments, amortization covenants, parent company guarantees, waivers of specified provisions of the facility documentation and the relaxation and recalibration of other existing covenants. These concessions are to ensure that the Company has the maximum prospects of implementing a successful recapitalisation and business transformation plan to re-position Elk's financial position for further development of the upside potential of its existing assets.

***Due to the materiality of these concessions and waivers, and the Company's continuing requirements under the Chapter 12 of the Listing Rules, the Company intends to remain in voluntary suspension under Listing Rule 17.2. Elk envisages that an update will be announced to the market on or prior to Friday, 19 April 2019.***

**Elk's Chair, Dr. Neale Taylor commented:** "Republic's proposal provides flexibility for the Company to work with current lenders to recapitalise the Company, after a series of events that have reduced the Company's ability to raise funds. The Board believes the Republic proposal underpins a plan that is in the best interests of all of the Company's stakeholders. The proposal offers all current Shareholders the opportunity to participate in the recapitalization Rights Issue. The situation requires immediate action. Republic's support shows its underlying conviction in regard to the value of Elk's assets and their sizeable potential. Bruce and Stefan will add significant capacity to the company's recently appointed CRO, Australian based and US based managers and the Elk Board in Australia. Placing additional capital into this situation is not a decision Republic has taken lightly and we would like to thank all Australian and US based employees, investors, creditors, auditors and other stakeholders for their support as we embark on a turnaround journey to realize the significant value of the Company's underlying assets."

**For further information, please contact:**

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***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.

## **Appendix A**

### **Background on Mr Bruce Clement and Positions and Duties**

#### **SUMMARY**

Experienced Senior Executive, Managing Director and CEO, who has led listed Australian mid-cap oil and gas companies for eight years, with extensive additional experience as an Executive Director, Chief Operating Officer, Chief Financial Officer and Company Secretary. Former Managing Director of AWE Limited and Roc Oil Company Limited, and mostly recently Executive Vice President - Conventional Oil and Gas at Santos Limited, most recently with responsibility for investments in three major gas and LNG projects.

Managed exploration, development and production operations in Australia and Asia, as well as successfully delivering key projects in Australia, China, Indonesia and the USA, including implementation of major acquisitions and divestments.

Key skills include leadership of an ASX listed company, breadth of industry knowledge, experience in acquisitions and divestments, commercial and analytic capability, technical engineering experience and project management, and delivery experience. Also experienced in finance and banking with roles as CFO of ASX listed company and as holding a senior credit role in an Australian bank.

#### **ACADEMIC QUALIFICATIONS**

- Bachelor of Engineering (Civil) Hons 1975-1979, Sydney University
- Bachelor of Science (Mathematics and Computer Science) 1975-1977, Sydney University
- Masters of Business Administration 1990-1993, Macquarie University

#### **POSITIONS & DUTIES:**

##### **Australia**

Advisor to the EPL Board:

- Full time role as Advisor to the Board, Mr. Stefan White and other EPL management and staff

##### **USA**

Advisor:

- Advisor to EPI Board and Management
- Advisor to the Executive Director of EPI

## **Appendix B**

### **Background on Mr Stefan White, and Positions and Duties**

#### **SUMMARY**

Mr. White has experience in credit and equity investment, executive corporate roles and advisory roles spanning special situations, complex restructurings and private loans. Mr. White most recently worked five years for a Hong Kong based fund manager and was principally responsible for credit and equity investments in the resource sector. Previously Mr. White had executive and non-executive roles in Indonesia's largest coal mining conglomerate, where he helped lead a number of restructuring mandates. Earlier in his career Mr. White worked for two prominent investments banks principally working on corporate advisory roles dealing with complex restructurings. Mr. White has previously invested in numerous ASX listed companies in situations that frequently required close and active engagement with members of the board and other stakeholders.

#### **ACADEMIC QUALIFICATIONS**

- Bachelor of Science, 1990 - 1995, University of Michigan, Ann Arbor, USA

#### **POSITIONS & DUTIES:**

Australia & USA:

Full-time Advisor to the EPL & EPI Boards

- Responsible for leading the Group's refinancing/recapitalisation program and organisations
- Link between the EPL and EPI Boards, Managements, Staff & Advisers