

23 November 2015

## Elk acquires Devon Energy DJ Basin Oil Properties

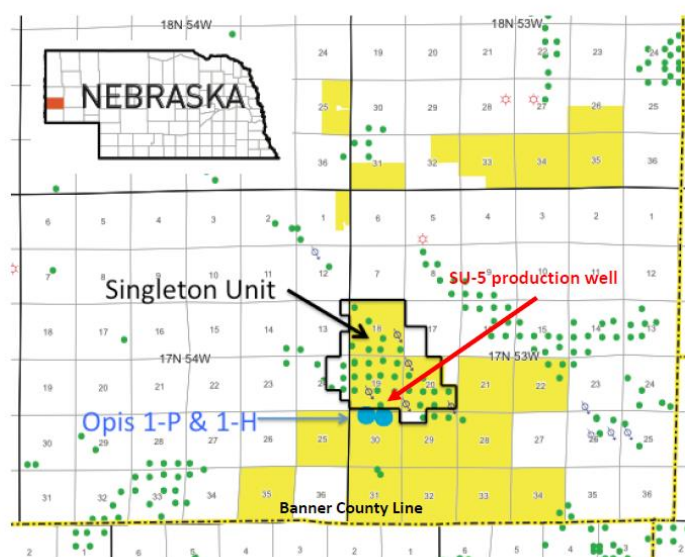
- Acquisition delivers substantial addition to Singleton Oil Field Redevelopment
- Acreage contains estimated 2.5 MMbbl 2P and 3C reserves & contingent resources
- Delivers 2P and 3P reserves and increases Company 2C & 3C contingent oil resources by 25-35%
- Significant new oil production development potential
- Assets include new-build oil production facilities
- Near term production expected
- Total consideration paid USD 100,000

Elk Petroleum Ltd (ASX: ELK) (the 'Company' or 'Elk') is pleased to announce that it has successfully completed the acquisition of a 100% operated working interest in certain oil properties from a wholly-owned subsidiary of Devon Energy Inc. (the "Devon Oil Properties"). These properties are located immediately adjacent and contiguous to Elk's Singleton Oil Field and CO<sub>2</sub> Enhanced Oil Recovery Project in Banner County, Nebraska. The properties were acquired for an entire consideration of USD 100,000.

Devon Energy Inc. ("Devon" / NYSE:DVN) is among the largest U.S.-based independent natural gas and oil producers. Based in Oklahoma City, Oklahoma, the company's operations are focused on North American onshore exploration and production.

**The Properties Acquired** - The Singleton Oil Field and the Devon Oil Properties (see map below) are located in the northeastern portion of the prolific Denver-Julesburg Basin (the "DJ Basin") which extends from north eastern Colorado into south eastern Wyoming and the western panhandle of Nebraska.

Devon Energy Leases in Banner County Acquired by Elk Petroleum



Note: Yellow in the map above shows the Elk Petroleum leasehold in Nebraska after the Devon Energy acquisition.

The properties acquired include:

- All of Devon's oil and gas leasehold interests in Banner County, Nebraska covering 9,738 gross acres (5,987 net acres);
- Two oil exploration wells – one vertical well, Opis 1P and one horizontal well, Opis 1H – both of which have completed as oil producers; and
- All of the oil production, processing facilities, storage and oil truck load-out equipment.

All of the properties are essentially new with the leases first being acquired in 2012 and the Opis 1P well drilled and completed in early 2013 and the Opis 1H well drilled and completed in late 2013 with production facilities constructed shortly thereafter.

### **Oil Production Facilities at Opis 1H** **August 2015 Elk Singleton Field Trip**



Devon acquired an extensive oil lease acreage position in the northeast portion of the DJ Basin, including the Banner County leases acquired by Elk, with a principal focus on a deep unconventional tight oil play in the Mississippi Limestone Formation. Although there was some moderate success in appraising the potential of this unconventional oil play, in October 2015 Devon announced that it was seeking to sell all of the leasehold acreage and oil assets it had acquired covering this play in the DJ Basin through EnergyNet ([www.energynet.com](http://www.energynet.com)), an online oil and gas property auction house. Prior to the commencement of this sale process, Elk had already expressed an interest to Devon in acquiring the Banner County properties and as such was alerted by Devon of the commencement of the EnergyNet sale process. Elk estimates that the total investment in the acquired properties is well in excess of USD 5 million.

**Elk's Focus on the Devon Oil Properties** – Prior to the commencement of the EnergyNet sale process, Elk had already identified significant oil development potential in the adjoining Devon Oil Properties. Elk's principal focus in the Nebraska portion of the DJ Basin is on the Singleton Oil Field and the Singleton CO<sub>2</sub> EOR Project as well as extension of this activity to other mature oil fields in the area around the Singleton Field. The main focus is on executing a CO<sub>2</sub> EOR Project in the J1 and J2 sands of the Muddy Formation – the same formation and sands that are being redeveloped at the company's Grieve Oil Field CO<sub>2</sub> EOR Project in Wyoming.

In undertaking the pre-development technical review of the Singleton CO<sub>2</sub> EOR Project, the company identified that in the southern portion of the Singleton Oil Field that some of the oil production was being contributed from a lower Muddy Formation interval known as the J3 sand. Although this sand was not present across all of the main Singleton Oil Field it was present in the southern portion of the field and had contributed to overall production in the Singleton 5 production well (see map above). Further technical analysis indicated that this sand and a likely oil pool extended further to the south of the Singleton Oil Field based data available from other nearby oil wells which also contained light oil in the J3 sand.

Following the commencement of the EnergyNet sale process, Elk was able to conduct detailed due diligence on the Devon Oil Properties and the drilling results from the Opis 1P and Opis 1H exploration wells. From the mud

and wireline logs for these wells, Elk was able to confirm that a relatively thick section of J3 sand present in the southern portion of the Singleton Oil Field did in fact extend south of the field. Evaluation of these logs indicated that these relatively shallow sands in the Opis 1P and Opis 1H wells also contained oil pay. As the target of the Opis 1P and Opis 1H wells were the deeper Mississippi Limestone oil play, these J3 oil sands were not tested and are now cased and behind pipe in the two completed wells.

This due diligence confirmed Elk's strong belief that there was a significant largely untapped oil pool associated with the southern portion of the field and extending into the adjacent oil leases purchased from Devon. Elk also noted that the newly installed oil production facilities at the Opis 1H production well were well situated to support the Singleton CO<sub>2</sub> EOR Project. Based on these combined factors Elk determined that the acquisition of the Devon Oil Properties could add significant value to the business on a relatively low cost, low risk basis.

**Acquisition Brings New Reserves & Resources** – Based on the company's evaluation of the demonstrated oil pay in the J3 sands in the southern portion of the Singleton Oil Field and its extension through to the Opis 1P and Opis 1H well locations, the acquisition of the Devon Oil Properties brings new oil reserves into the Elk portfolio. Elk estimates that the Devon Oil Properties contain approximately 3C contingent oil resources of 2.5 MMbbls and 78 Mbbls of 2P oil reserves net to Elk. The acquisition represents a 25-35% increase in the company's current 3C contingent oil resources. The Company's estimate of reserves for the acquired properties is set out in the table below:

Elk Petroleum Ltd													
Estimated consolidated oil reserves as of 23 November 2015													
(mbbls net of royalties)													
Reserves							Contingent Resources						
1P		2P			3P		2C			3C			
New Leases	Total	Grieve	New Leases	Total	Grieve	Total	Singleton CO <sub>2</sub> EOR	New Leases	Total	Grieve	Singleton CO <sub>2</sub> EOR	New Leases	Total
54	54	3,500	78	3,578	4,700	4,700	3,000	1,512	4,512	4,700	4,000	2,510	11,210

**Near Term Production** – The acquisition also provides Elk with a near term production opportunity. Subject to securing appropriate regulatory approvals, the company plans to put the Opis wells back into production in the first half of CY 2016.

Devon was able to successfully produce oil from the Opis 1P and Opis 1H wells from the deeper Mississippi Lime oil play albeit with significant quantities of water production, which is common for this unconventional oil play. In order to manage the produced water, Devon was required to truck a significant volume of water to a remote disposal location. At current oil prices the cost of water disposal to a remote location via a trucking operation at an estimated cost of USD 2.50 barrel of water made continuing production uneconomic.

Due to the close proximity of the Opis 1P and Opis 1H oil wells and production facilities to the Elk's Singleton Oil Field and CO<sub>2</sub> EOR project, the company is uniquely positioned to reinstate oil production from the newly acquired properties with a low cost water production management solution by using the produced water to commence the Singleton CO<sub>2</sub> EOR project. The cost of this solution is estimated to be approximately USD0.15 per barrel of water. On this cost basis this will allow economic oil production to be re-started from the existing facilities even at current low oil prices.

**Significant Synergies, Significant Production Potential - Rationale for the Acquisition** - The acquisition of the Devon Oil Properties present significant synergies for the development of the overall Singleton Oil Field and the CO<sub>2</sub> EOR Project. In the first instance, the company can commence oil production from the existing Opis 1H well from the original production interval in the Mississippi Limestone. Second, the Opis 1P well can be re-completed in the J3 sand. Additionally, the produced water from the Opis 1P and 1H wells will provide the water production necessary for repressuring the Singleton Oil Field to be undertaken as the initial phase of the CO<sub>2</sub> EOR Project in the J1 and J2 sands. Third the presence of a much larger unexploited oil pool in the J3 sand can provide additional initial production in the greater Singleton Oil Field redevelopment project area while the CO<sub>2</sub> flooding project is progressing.

In 2014, the company previously sought to commence production testing of the J3 oil sands in the southern portion from the Singleton Unit SU-5 production well. Prior to commencing this production test, the company

undertook an inspection of the well bore and casing and found that the casing integrity was unsuitable for attempting a recompletion focused solely on the J3 oil sand. With the acquisition of the Devon Oil Properties, the company can now proceed with this J3 oil sand production test in two new modern oil production wells. The objective of this testing program using the Opis 1P and Opis 1H wells will be to establish the best approach to producing the J3 oil sand.

The company believes that following a successful production testing program, the J3 sand oil pool contained in the acreage extending from the southern portion of the Singleton Oil Field southern boundary of Banner County can be developed to deliver significant oil production by mid-CY 2017. It is expected that this area can be developed through a series of horizontal stimulated well that are expected to have an EUR of approximately 175,000 bbls per well and that by mid-2018 a peak gross oil production rate for the development of over 1600 BOPD could be achieved.

**Indicative Forward Work Program** – As part of determining to proceed with attempting to acquire the Devon Oil Properties through the EnergyNet auction process, the company has formulated an indicative work program as follows:

Stage	Activity/Description	Timeframe
Production Testing	1 Reinstatement oil production from Mississippi Lime Opis 1H well and commence water injection into Singleton Oil Field J1 and J2 oil sands	1 <sup>st</sup> half CY2016
	2 Re-enter Opis 1P well and re-complete well in J3 oil sand and production test – estimated cost USD 195,000	1 <sup>st</sup> half CY2016
	3 Re-enter Opis 1H well and drill horizontal production test well in the J3 oil sand targeting initial production rate of approximately 340 BOPD – estimated cost USD 2.5 million	2 <sup>nd</sup> half CY2016
Field Development	4 Commence horizontal development well drilling program targeting production rate of over 1600 BOPD in 2018 – estimated cost TBD	CY 2017-2018

Since the acquisition of the Devon Oil Properties has been successfully completed, the company will commence the planning process to implement the above work program in due course. As the program progresses, regular updates to the market will be provided.

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**ABOUT ELK PETROLEUM**

Elk Petroleum Limited (ASX: ELK) is an oil and gas company specialising in Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR), with assets located in one of the richest onshore oil regions of the USA, the

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Rocky Mountains. Listed on the ASX in 2005, 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.

Leveraging proven EOR technology and Company expertise and experience, Elk is currently developing the Grieve oil field in Wyoming (Elk – 35% WI) and is planning for a CO<sub>2</sub>-based EOR project at the Singleton oil field in Nebraska (Elk – 100% WI & operator).

### *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 and Contingent Resources in this announcement relating to the Grieve CO<sub>2</sub> EOR project, operated by Denbury Resources, is based on an independent review and audit conducted by Pressler Petroleum Consultants, Inc. and fairly represents the information and supporting documentation reviewed. The review and audit was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Grant Olsen, a Director of Pressler Petroleum Consultants, Inc., an independent petroleum advisory firm. Mr. Olsen is a Registered Professional Engineer in the State of Texas and his qualifications include a Bachelor of Science and Master of Science (both in Petroleum Engineering) from Texas A&M University. He has more than 10 years of relevant experience. Mr. Olsen is a member of the Society of Petroleum Engineers (SPE) and an Associate Member of the Society of Petroleum Evaluation Engineers. Mr. Olsen meets the requirements of Qualified Petroleum Reserve and Resource Evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this report.

The information in this presentation that relates to Reserve and Contingent Resources estimates for the Grieve CO<sub>2</sub> EOR project and the Reserve and Contingent Resource estimates for the Singleton CO<sub>2</sub> EOR project have been compiled or in the case of the Singleton CO<sub>2</sub> EOR project and the newly acquired Devon Oil Properties prepared by Mr. Brian Dolan, COO and VP-Engineering of Elk Petroleum Inc. who is a qualified person as defined under the ASX Listing Rule 5.11 and has consented to the use of the reserves figures in the form and context in which they appear in this presentation. Mr. Dolan is a full-time employee of the company. Mr. Dolan earned a degree in Mechanical Engineering from the University of Colorado at Boulder and has more than 23 years of relevant experience. Mr. Dolan 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. Dolan consents to the inclusion in this presentation of the matters based on the information in the form and context in which it appears.