

21 December 2015

Elk and Denbury Reach Indicative Agreement To Restructure Grieve Project JV

- Elk and Denbury reach initial agreement on the restructure of the Grieve CO₂ Enhanced Oil Recovery Project
- Elk to increase working interest in Grieve Project to 49% with the right to receive 70% of the net operating cash flow from the first 2 million barrels of production
- Denbury to remain Operator and provide firm commitments for development cost and completion date on a fixed price turnkey contract funded by Elk
- Under fixed price turnkey contract, Elk to fund US\$55 million to complete the development of the Grieve Project with Denbury to cover any cost overruns
- Denbury will supply and cover full cost of CO₂ to be injected into the Grieve field required to reach first oil production
- Grieve Project to ship all oil production on the Grieve Oil Pipeline
- Proposed restructure drives 51% increase in Elk net 2P Reserves to 5.3 MMbbls
- Preliminary funding commitments secured by Elk for remaining development work
- Early February 2016 targeted for completion and execution of formal agreements for both the restructured Grieve Project and funding arrangements

Elk Petroleum Ltd (ASX:ELK) (the 'Company' or 'Elk') is pleased to advise that it has entered into a non-binding Letter of Intent (LOI) with Denbury Onshore LLC (Denbury) for the restructuring of the Grieve CO₂ Enhanced Oil Recovery (EOR) Project (Grieve Project). The Grieve Project is the Company's flagship CO₂ EOR project and is located in the Northern Rocky Mountain region - one of North America's principal CO₂ enhanced oil production fairways (see attached maps).

Following extensive negotiations, Elk and Denbury have agreed to indicative terms that will enable the timely completion of the Grieve Project at a fixed cost. The LOI also provides for a firm commitment to complete the project and all facilities necessary to commence first oil production by the end of the third quarter 2017.

Denbury is a wholly owned subsidiary of Denbury Resources Inc. (NYSE:DNR), a leading North American independent oil and gas company and recognized leader in CO₂ Enhanced Oil Recovery oil field re-development and production operations. Denbury Resources is headquartered in Plano, Texas and its assets are located in the Gulf Coast and Rocky Mountain regions of the US.

Key Terms of JV Restructure and Letter of Intent - The key terms of the LOI are:

Elk to materially increase working and revenue interest in the Grieve Project - Elk will materially increase its working interest in the Grieve Project and cash flow entitlement from Grieve Project. Under the proposed terms, Elk's working interest¹ in the Grieve Project will increase from the current 35% to 49%. In addition Elk will also materially increase its right to receive an increased share of net cash flow from the Project at start-up. Elk will be entitled to receive 75% of the net operating cash flow from the first one million barrels of oil produced and then to 65% of the net operating cash flow from the next one million barrels of oil produced. After production of 2 million barrels, net operating cash flow from the Project will be allocated in accordance with both parties' working interests for the remaining life of the Project with Elk holding a 49% working interest and Denbury, as operator holding a 51% working interest in the Project.

Elk to fund completion under Denbury fixed price turnkey contract - Elk will fund a fixed amount of US\$55 million which is 100% of the estimated cost to complete the field development and to construct the facilities necessary to commence first oil production. Under this arrangement, Denbury will provide a firm, fixed price turnkey commitment that the remaining development cost for the Grieve Project will not exceed US\$55 million and that Denbury will cover the cost of any cost overruns. To date, Denbury has invested in excess of US\$100 million into the Grieve Project.

Denbury to contribute CO₂ required to reach first oil production - Denbury has committed to contribute up to 59 billion cubic feet (BCF) of CO₂. As a contribution to the completion of the Project, Denbury will cover the cost of this CO₂ with no additional cost to Elk. To date, approximately 25 BCF of CO₂ has been injected into the Grieve Oil Field. An estimated additional 27 BCF is required to achieve the target pressure for first oil. After 59 BCF of CO₂ has been contributed by Denbury to the Grieve Project, Denbury has agreed to supply the necessary CO₂ for the remaining life of the Grieve Project on favorable commercial terms. Denbury is currently injecting CO₂ into the Grieve Oil Field on a steady state basis at a rate of 50 to 60 MMCF per day and has been doing so since July 2015.

Grieve will contract to ship all oil production on Elk's Grieve Oil Pipeline – As part of the overall JV arrangements Denbury has agreed that all of the oil production from the Grieve Project will be shipped to market via Elk's 100% owned and operated Grieve Oil Pipeline (see attached map) at a haulage charge of US\$3.00 per barrel.

¹ "Working Interest" is the percentage of ownership in an oil and gas lease granting its owner the right to explore, drill and produce oil and gas from a tract of property. Working interest owners are obligated to pay a corresponding percentage of the cost of leasing, drilling, producing and operating a well or unit. After royalties are paid, the working interest also entitles its owner to share in production revenues with other working interest owners, based on the percentage of working interest owned.

Definitive completion date and first oil by 3rd Quarter CY2017 - Under the LOI, Denbury has committed to completion of the development of the Grieve Project (including all facilities necessary to commence first oil production) by 1 September 2017. The parties have agreed to this target date for completion to allow for the necessary time to fully implement the restructuring of the joint venture and for Elk to secure all of the necessary funding to close the arrangements outlined above.

The negotiations between Elk and Denbury followed Elk's dismissal of its civil lawsuit against Denbury in the US (see ASX announcement 16 July 2015). Upon closing a definitive restructuring of the Grieve JV, the parties have agreed that all of the previous joint venture arrangements will be replaced and that all prior claims arising out of these arrangements will be released including legal claims included in the lawsuit and that prior joint venture funding provisions will be released through Elk funding the completion of the Grieve Project.

The LOI and the restructuring of the JV is subject to negotiation and completion of definitive documentation for the entire transaction as well as Elk securing on a firm basis the required funding for the Grieve Project. The LOI provides that these definitive agreements will include firm commitments of completion cost and date, and associated penalty damages for failing to meet these requirements.

Elk and Denbury are working together to negotiate formal agreements for the restructured JV, and both parties are targeting completion and execution of documents for both the JV operation and funding components by the beginning of February 2016. The target completion date for restructuring the Grieve Project is subject to adjustment to the extent that closing of restructuring of the Grieve Project and Elk's financing to support the funding slides later than the beginning of 1 February 2016.

Approximately 70% of the initial capital expenditures have been incurred to date on the Grieve Project development, with a substantial portion of the major production facilities completed. Construction of the oil processing and CO₂ recompression facilities are the only outstanding major infrastructure items for the Grieve Project. Injection of water and CO₂ into the oil reservoir will continue to achieve the target pressure for first oil.

GRIEVE PROJECT FUNDING

Elk is pleased to advise that it has received preliminary non-binding offers and expressions of interest from various funding sources for more than US\$50 million to fund the completion of the Grieve Project. These potential sources of funding are principally forms of senior and mezzanine debt funding. It is anticipated that Elk will also raise a modest level of additional equity to complement the overall funding mix. The exact amount of this additional equity raising has not yet been determined.

To this end, the Company has been working over the last several months to build new relationships with Australian brokerage firms, investment banks and other financial institutions and institutional investors to support the Company in its overall efforts to secure a definitive restructuring of the Grieve Project and first oil production. The Company is being assisted and well supported in these efforts by Miro Advisors who are also assisting with the negotiations with Denbury and to obtain the necessary funding for the completion of the Grieve Project.

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MATERIAL INCREASE IN ELK OIL RESERVES – UP 51%

The proposed restructure of the Grieve Project means Elk will materially increase its share of the Project's 2P oil reserves by 51% as outlined in the table below. Elk's share of 3P Reserves and 3C Contingent Resources will also each increase by 49%.

Elk's reserves and resources were estimated by Pressler Petroleum Consultants and are current as at 31 August 2015. The 2P, 3P and 3C Reserves and Resources were included in the Independent Experts' Reports (dated 21 September 2015) that accompanied the Notice of Meeting for the 2015 Annual General Meeting.

Grieve CO2 EOR Project Reserves & Resources				
Scenario	Current Pre-JV Restructure (MMbbls)		Post JV Restructure (MMbbls)	
	Gross	Net	Gross	Net
2P (Probable)	12.2	3.5	12.2	5.3
3P (Probable + Possible)	16.3	4.7	16.3	7.0
3C (Contingent Resources)	16.3	4.7	16.3	7.0

The columns labeled Current Pre-JV Restructure reflects Elk's current 35% working interest in the Reserves and Resources of the Grieve Project. The columns labeled Post JV Restructure reflects the increased share of the Reserves and Resources in the Grieve Project assuming the restructuring of the JV contemplated by the LOI is completed.

The Gross figures reflects the estimate of the total Project Reserves and Resources on a 100% basis prior to royalties. The Net figures reflects the Reserves and Resources net to Elk after accounting for Denbury's working interest and royalties. Royalties are essentially Federal and State royalties due under the oil and gas leases making up the Grieve Project.

Elk Managing Director and CEO, Brad Lingo commented:

"We are really glad to see that the negotiations with Denbury have resulted in a preliminary agreement that provides a clear pathway for the continued development of the Grieve Project, and more importantly a definitive completion date that provides for oil production commencement."

"This result was achieved because right from the start both parties approached the negotiations in good faith and with full intentions to find a workable and mutually acceptable outcome that delivered the completion of the Grieve Project."

"Denbury has clearly demonstrated it remains committed to the successful completion of the Grieve Project development. Their commitment to providing a fixed price, turnkey contract to complete the Grieve Project and to contribution of significant CO₂ volumes is a clear demonstration of the quality of the underlying project and its overall attractiveness from an operating cost perspective."

"The potential to increase Elk's interest in Grieve provides shareholders an opportunity to gain further exposure to this attractive project, which in a low oil price environment, remains economically robust due to a lower operating cost compared with our peers."

"Upon completion of the transactions, the restructuring of the JV also drives a material increase

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in Elk's 2P oil reserves while substantially de-risking development spend through the fixed price turnkey contract with Denbury."

"I am very pleased that coming out of these negotiations the Company has been able to work constructively with Denbury as North America's leading CO₂ EOR company and to essentially reset the clock on our joint venture relationships. We look forward to working constructively with Denbury not only in the Grieve Project but potentially in other projects leveraging off the infrastructure and facilities being developed at Grieve."

"Furthermore, the restructured JV enables both parties to maximize the value of the Grieve Project and their respective contributions, with Denbury and Elk combining their expertise in CO₂ EOR and Elk providing the necessary funds for project completion."

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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. 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 CO₂-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 CO₂ 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.

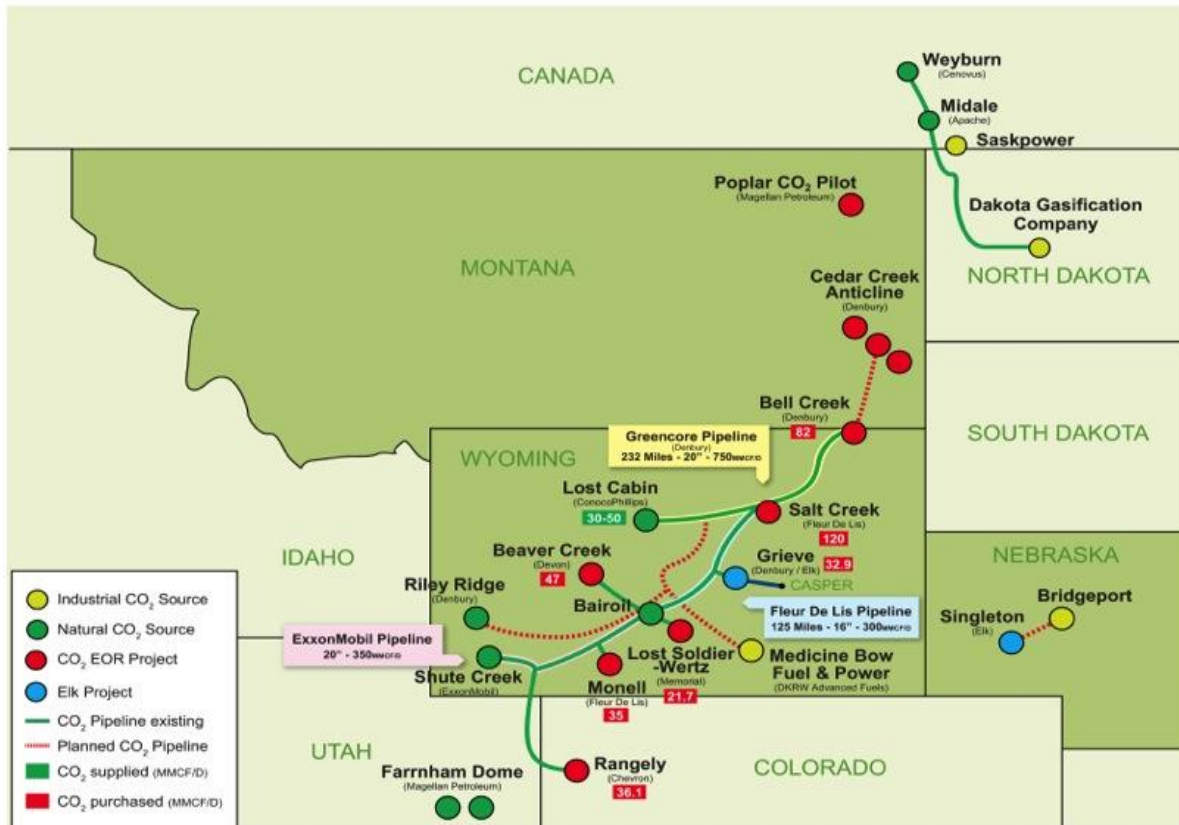
The information in this presentation that relates to Reserve and Contingent Resources estimates for the Grieve CO₂ EOR project and the Reserve and Contingent Resource estimates for the Singleton CO₂ EOR project have been compiled or in the case of the Singleton CO₂ EOR project and the newly acquired 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

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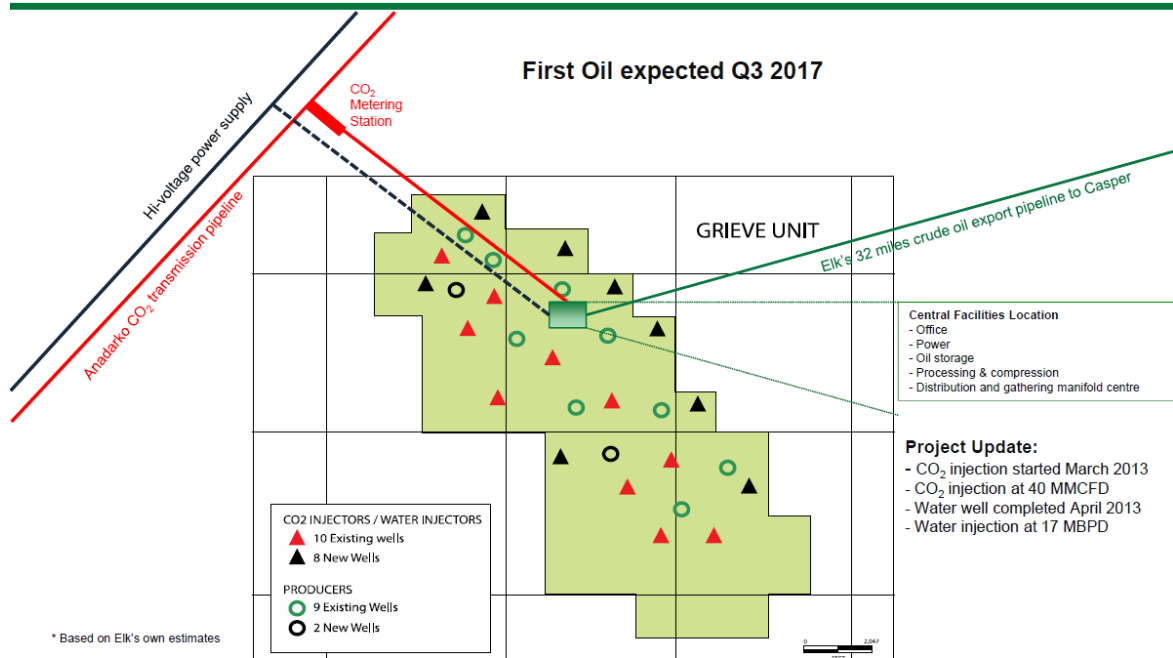
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Northern Rocky Mountain CO₂ EOR Production Fairway & Key Infrastructure and Projects



Grieve CO₂ EOR Project Map

Grieve CO₂ EOR Project – A Field-level View



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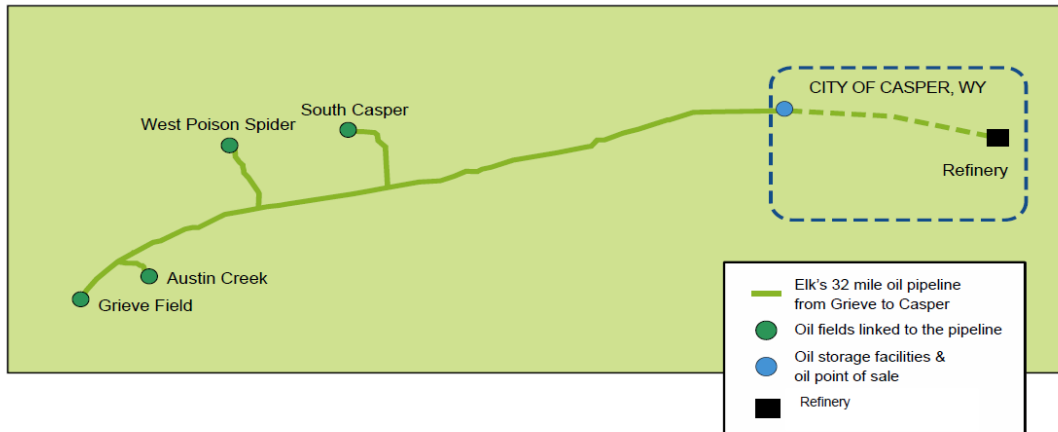
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Access to Markets - Grieve Crude Oil Export Pipeline

- Grieve Crude Oil Export Pipeline owned 100% by Elk
- Enables Grieve oil production to be directly shipped to Casper Refinery avoiding costly transport
- Pipeline commissioning works now scheduled to be likely undertaken in 2016
- Discussions on-going with prospective 3rd parties – shippers & potential pipeline purchasers
- Significant potential for Elk to monetise the pipeline resulting in a material cash inflow



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