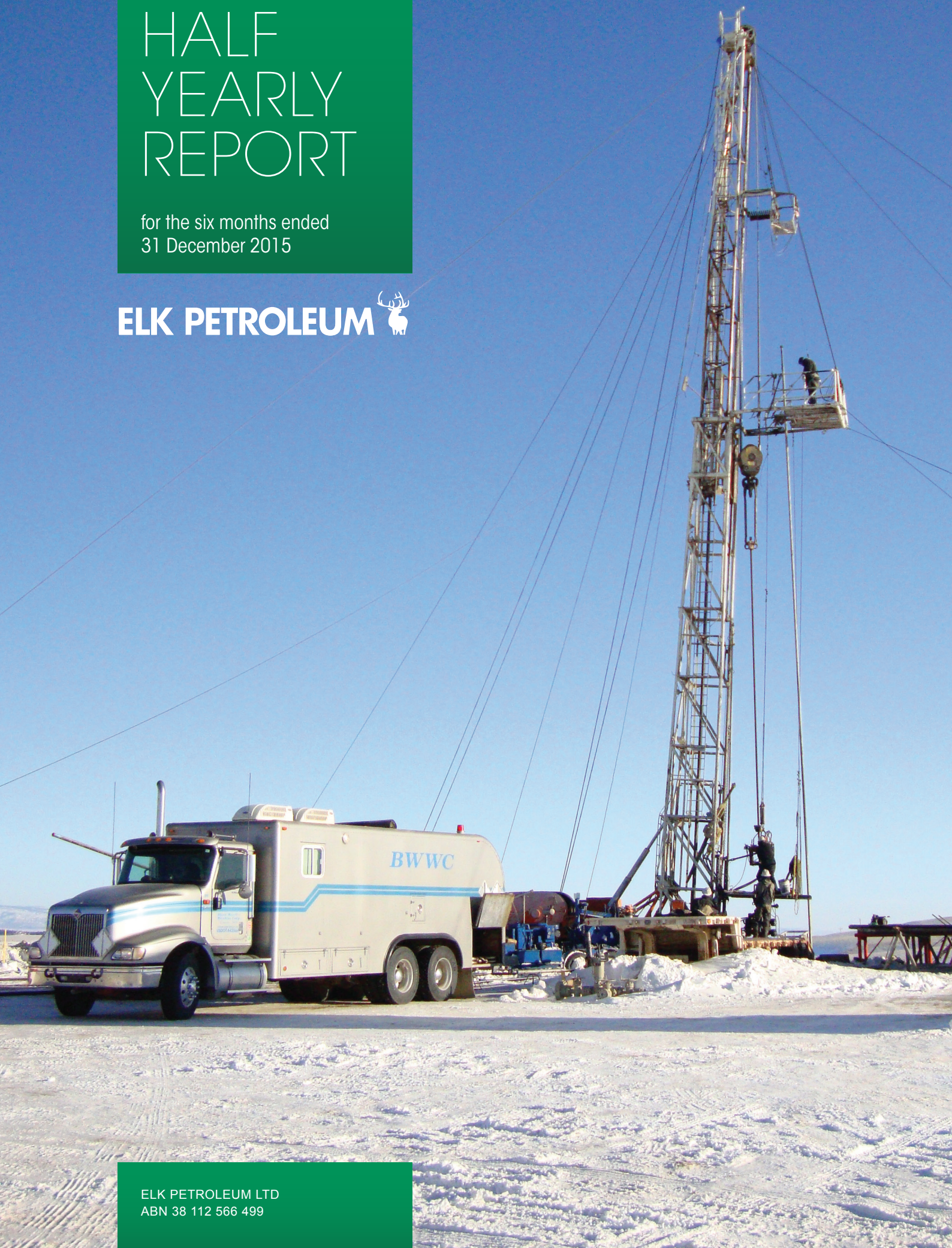


# HALF YEARLY REPORT

for the six months ended  
31 December 2015

**ELK PETROLEUM** 



ELK PETROLEUM LTD  
ABN 38 112 566 499



The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Elk Petroleum Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2015.

## **DIRECTORS**

The following persons were directors of Elk Petroleum Ltd during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Neale Taylor (Chairman)  
Bradley Lingo (Managing Director) (appointed 1 August 2015)  
Russell Krause  
Matthew Healy  
Tim Hargreaves

## **PRINCIPAL ACTIVITIES**

The company specialises in developing enhanced oil recovery ("EOR") projects. During the half-year the principal activities of the company consisted of the development of a CO<sub>2</sub> EOR project at the Grieve oil field in Wyoming, USA and continuation of operations at the Singleton Unit in Nebraska. The Grieve CO<sub>2</sub> EOR project is operated by Denbury Onshore LLC and current operations are focused on development of facilities and on CO<sub>2</sub> and water injection to re-pressure the Grieve field prior to commencing first oil production.

## **DIVIDENDS**

There were no dividends paid, recommended or declared during the current or previous financial half-year.

## **REVIEW OF OPERATIONS**

### ***Grieve CO<sub>2</sub> EOR Project***

#### ***Project Development***

Work has continued on the CO<sub>2</sub> enhanced field redevelopment of the Grieve Oil Field with the principal activities focused on continued repressuring the field through CO<sub>2</sub> injection and the commercial restructuring of the Grieve Joint Venture. Approximately 64% of the development of the Grieve Project has been completed to date.

A substantial portion of the major production facilities has been completed with construction of the oil processing and CO<sub>2</sub> recompression facilities the only outstanding major infrastructure items for the Grieve Project.

Denbury is currently injecting CO<sub>2</sub> 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. Repressurisation continues in line with forecasts and based on the current CO<sub>2</sub> injection rate and field repressurisation profile, It is expected that the Grieve Field will reach minimum miscible pressure (approximately 2200 PSI) by the beginning of the June quarter 2016 – a key milestone in the Grieve Project. Forward projections for the Grieve Field repressurisation indicate that the Grieve Field will reach the target field pressure to allow free flow production (approximately 3100 PSI) before outstanding central production and CO<sub>2</sub> recycling facilities are completed. As of the date of this report, approximately 30 BCF of CO<sub>2</sub> has been injected into the Grieve Oil Field.

#### ***Grieve Project Restructuring***

During the period, Elk has entered into a non-binding Letter of Intent (LOI) with Denbury Onshore LLC (Denbury) for the restructuring of the Grieve CO<sub>2</sub> Enhanced Oil Recovery (EOR) Project (Grieve Project). The Grieve Project is the Company's flagship CO<sub>2</sub> EOR project and is located in the Northern Rocky Mountain region - one of North America's principal CO<sub>2</sub> enhanced oil production fairways.

Under the LOI, 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 interest 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 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. The cost break down for the completion of the remaining works to be funded by Elk is approximately US\$37 million for the completion of the oil processing and CO<sub>2</sub> recompression facilities, US\$2.7 million for infield flowlines, US\$5.7 million for well workovers and US\$9.6 million for lease operating expenses during construction for a total of US\$55 million.

Denbury has committed to contribute up to 59 billion cubic feet (BCF) of CO<sub>2</sub> to the Grieve Project. As a contribution to the completion of the Project, Denbury will cover the cost of this CO<sub>2</sub> at no cost to Elk. After 59 BCF of CO<sub>2</sub> has been contributed by Denbury to the Grieve Project, Denbury has agreed to supply the necessary CO<sub>2</sub> for the remaining life of the Grieve Project on favourable commercial terms. An estimated additional 22 BCF of CO<sub>2</sub> is required to achieve the target pressure for first oil.

Under the LOI and subject to the timing of financial closing on the Grieve JV restructure and Elk's financing of the continued field development project, 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.

Following the LOI, the previously announced court action between Elk and Denbury was withdrawn, with both parties reserving their respective rights pending resolution and finalisation of the Grieve Project Restructuring.

## **Nebraska**

During November Elk 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 Singleton Oil Field and the Devon Oil Properties are located in the north-eastern 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. 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.

Prior to the pursuing the acquisition, 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.

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.

## REVIEW OF FINANCIAL RESULT

The loss for the group after providing for income tax amounted to \$3,463,831 (31 December 2014: \$1,905,717).

The increase in the loss in the current period is primarily due to the liability of \$1.2 million for the Company's dispute with the Crow Tribe. This amount has been provided for in the 31 December 2015 financial statements but is subject to possible future actions by the Company in regard to this matter. See further comments below under "Matters Subsequent to the end of the Financial Half-Year". For comparative purposes only, the loss for the group (excluding one-off expenses for the liability with the Crow Tribe and Ash Creek sale) after providing for income tax amounted to \$2,264,305 (31 December 2014: \$1,869,585).

Administrative expenses show a modest increase related to increased services to support the Grieve Project JV restructuring negotiations. The increase in finance costs for the half year represents the interest charged on the convertible loan (as disclosed in Note 10 in the financial statements).

There has been a significant improvement in the volume weighted average price of Elk's share price for the month of December 2015 compared to the month of December 2014, increasing by 97.4% from 3.8 cents to 7.5 cents.

Likewise, the market capitalisation of Elk as at 8 March 2016 and 31 December 2015 has significantly increased compared to 31 December 2014, both on the undiluted basis based shares on issue at the respective period ends and a diluted basis based on the assumption that the full Convertible loans and accrued interest to maturity (on 15 April 2016) are converted at 3.8 cents per share (noting these loans are significantly 'in the money' compared to the current Elk share price).

UNDILUTED	8/03/2016	31/12/2015	31/12/2014
No shares at period end date	262,780,043	222,780,059	196,277,553
Share price at period end date	\$ 0.0780	\$ 0.0840	\$ 0.0360
Market Capitalisation	\$ 20,496,843	\$ 18,713,525	\$ 7,065,992
Increase from 31/12/2014	190.1%	164.8%	0.0%

DILUTED	8/03/2016	31/12/2015	31/12/2014
No shares at period end date	262,780,043	222,780,059	196,277,553
Maximum shares under Con. Loan	107,145,743	107,145,743	-
	369,925,786	329,925,802	196,277,553
Share price at period end date	\$ 0.0780	\$ 0.0840	\$ 0.0360
Market Capitalisation	\$ 28,854,211	\$ 27,713,767	\$ 7,065,992
Increase from 31/12/2014	308.4%	292.2%	0.0%

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the group during the financial half-year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL HALF-YEAR

On 11 January 2016, the Company has announced that it has undertaken a private placement ("Placement" to sophisticated investors to raise a total of \$2.52 million (before costs), being for the continued exploration and feasibility study expenditure on the Company's current projects and general working capital.

As outlined in Note 14, on 23 February 2016 the company has been advised that the US District Court in Montana has denied Elk's motions and issued a decision in favour of the Bureau of Indian Affairs (BIA), including that Elk is liable for payments under the Indian Mineral Development Act Agreement (IMDAA) and owes BIA US\$869,177 in relation to the Crow Tribe Dispute. While Elk is seeking further legal advice and evaluating its options including an appeal to the Court's decision, a liability has been recognised in the current period financial statements in accordance with the requirements of AASB 110 Events after the Reporting Period.

As previously announced on 21 December 2015, Elk and Denbury entered into a non-binding letter of intent ("LOI") outlining the basis for the restructuring of the Grieve CO<sub>2</sub> EOR Project Joint Venture pursuant to which the Company will fund US\$ 55 million to complete the project and substantially increase its working and beneficial interest in the project reserves and cash flows. Under the LOI, the target date for finalising the documentation and finance was 1 February 2016. Although final documentation between Elk and Denbury has not yet been completed, the parties believe that significant progress has been achieved on the main project agreements – the master development agreement, the turnkey construction agreement and the revised joint venture unit operating agreement. With this progress, the deadline for completing definitive documentation and completing the financing of the JV restructure has been extended to 31 May 2016.

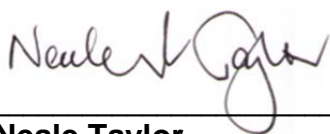
No other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

### **AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



**Neale Taylor**  
Chairman

15 March 2016  
Sydney



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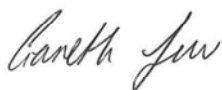
Australia

**DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF ELK PETROLEUM LIMITED**

As lead auditor for the review of Elk Petroleum Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Elk Petroleum Limited and the entities it controlled during the period.



Gareth Few  
Partner

**BDO East Coast Partnership**

Sydney, 15 March 2016

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

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**General information**

The financial statements cover Elk Petroleum Ltd as a group consisting of Elk Petroleum Ltd and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Elk Petroleum Ltd's functional and presentation currency.

Elk Petroleum Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

**Registered office**

Suite 4 Level 9  
341 George Street  
Sydney NSW 2000  
Australia

**Principal place of business**

Exchange House  
Level 1, Suite 101  
10 Bridge Street  
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the notes to the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 15 March 2016.

	<b>Note</b>	<b>Consolidated 2015 \$</b>	<b>2014 \$</b>
<b>Revenue</b>	3	1,756	50,985
<b>Expenses</b>			
Depreciation and amortisation expense		(84,470)	(121,419)
Loss on disposal of oil and gas properties - Ash Creek		-	(36,132)
Production costs		(141,128)	(240,745)
Professional and corporate services	4	(308,531)	(324,578)
Administrative expenses		(545,898)	(323,467)
Directors and employees costs	4	(884,671)	(798,991)
Other expenses	4	(1,199,367)	(9,617)
Finance costs		(301,522)	(101,753)
<b>Loss before income tax expense</b>		(3,463,831)	(1,905,717)
Income tax expense		-	-
<b>Loss after income tax expense for the half-year attributable to the owners of Elk Petroleum Ltd</b>		(3,463,831)	(1,905,717)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		188,030	629,787
Other comprehensive income for the half-year, net of tax		188,030	629,787
<b>Total comprehensive income for the half-year attributable to the owners of Elk Petroleum Ltd</b>		<u>(3,275,801)</u>	<u>(1,275,930)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	16	(1.69)	(0.98)
Diluted earnings per share	16	(1.69)	(0.98)

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*



		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2015 \$</b>	<b>30 June 2015 \$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		198,188	1,567,344
Trade and other receivables		193,947	168,172
		<u>392,135</u>	<u>1,735,516</u>
Non-current assets classified as held for sale	5	-	813,479
Total current assets		<u>392,135</u>	<u>2,548,995</u>
<b>Non-current assets</b>			
Property, plant and equipment		70,724	26,145
Oil and gas properties - Grieve project	6	34,194,549	26,030,398
Oil and gas properties - South Singleton project	7	338,644	-
Oil and gas properties - Singleton project	8	2,966,230	2,883,331
Other		143,875	39,190
Total non-current assets		<u>37,714,022</u>	<u>28,979,064</u>
<b>Total assets</b>		<u>38,106,157</u>	<u>31,528,059</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	11,100,073	4,376,790
Borrowings	10	3,884,234	3,585,360
Total current liabilities		<u>14,984,307</u>	<u>7,962,150</u>
<b>Non-current liabilities</b>			
Borrowings - Denbury JV	11	20,882,795	18,930,906
Provisions		3,398,940	3,216,439
Total non-current liabilities		<u>24,281,735</u>	<u>22,147,345</u>
<b>Total liabilities</b>		<u>39,266,042</u>	<u>30,109,495</u>
<b>Net assets/(liabilities)</b>		<u>(1,159,885)</u>	<u>1,418,564</u>
<b>Equity</b>			
Issued capital	12	38,405,967	37,761,520
Reserves		1,931,417	1,690,482
Accumulated losses		<u>(41,497,269)</u>	<u>(38,033,438)</u>
<b>Total equity/(deficiency)</b>		<u>(1,159,885)</u>	<u>1,418,564</u>

*The above statement of financial position should be read in conjunction with the accompanying notes*

<b>Consolidated</b>	<b>Contributed equity \$</b>	<b>Foreign Currency Translation reserve \$</b>	<b>Option reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
Balance at 1 July 2014	36,919,205	(1,290,329)	1,909,518	(34,387,468)	3,150,926
Loss after income tax expense for the half-year	-	-	-	(1,905,717)	(1,905,717)
Other comprehensive income for the half-year, net of tax	-	629,787	-	-	629,787
Total comprehensive income for the half-year	-	629,787	-	(1,905,717)	(1,275,930)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	724,932	-	-	-	724,932
Share-based payments	-	-	87,208	-	87,208
Balance at 31 December 2014	<u>37,644,137</u>	<u>(660,542)</u>	<u>1,996,726</u>	<u>(36,293,185)</u>	<u>2,687,136</u>

<b>Consolidated</b>	<b>Contributed equity \$</b>	<b>Foreign Currency Translation reserve \$</b>	<b>Option reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total deficiency \$</b>
Balance at 1 July 2015	37,761,520	(397,566)	2,088,048	(38,033,438)	1,418,564
Loss after income tax expense for the half-year	-	-	-	(3,463,831)	(3,463,831)
Other comprehensive income for the half-year, net of tax	-	188,030	-	-	188,030
Total comprehensive income for the half-year	-	188,030	-	(3,463,831)	(3,275,801)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 12)	644,447	-	-	-	644,447
Share-based payments	-	-	52,905	-	52,905
Balance at 31 December 2015	<u>38,405,967</u>	<u>(209,536)</u>	<u>2,140,953</u>	<u>(41,497,269)</u>	<u>(1,159,885)</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

	<b>Note</b>	<b>Consolidated 2015 \$</b>	<b>2014 \$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		-	38,952
Payments to suppliers		(1,618,338)	(1,843,195)
Interest and other receipts		1,756	20,215
Finance costs		(146)	(101,206)
Net cash used in operating activities		(1,616,728)	(1,885,234)
<b>Cash flows from investing activities</b>			
Payments for oil and gas properties and plant and equipment		(211,812)	(8,224)
Payments for exploration and development		(31,797)	(197,122)
Payment for bonds and deposits		(152,854)	-
Proceeds from sale of Ash Creek, net of costs		-	1,784,313
Net cash (used in)/ from investing activities		(396,463)	1,578,967
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	12	650,000	850,000
Share issue transaction costs		(5,553)	(140,068)
Proceeds from borrowings (Metgasco loan)		-	200,000
Repayment of borrowings		(2,680)	(1,125,337)
Proceeds from release of security deposits		-	450,787
Net cash from financing activities		641,767	235,382
Net decrease in cash and cash equivalents		(1,371,424)	(70,885)
Cash and cash equivalents at the beginning of the financial half-year		1,567,344	403,258
Effects of exchange rate changes on cash and cash equivalents		2,268	16,660
Cash and cash equivalents at the end of the financial half-year		<u>198,188</u>	<u>349,033</u>

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## **Note 1. Significant accounting policies**

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### **New, revised or amending Accounting Standards and Interpretations adopted**

The group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### **Going concern**

The group incurred a loss for the half-year after tax of \$3,463,831 (2014: \$1,905,717) and a net cash out flow from operating activities of \$1,616,728 (2014: \$1,885,234). In addition, the group's liabilities exceed its assets by \$1,159,885 but this position is expected to materially change with completion of the current Grieve JV restructuring and related financing negotiations.

The financial report has been prepared on the basis of a going concern, notwithstanding the fact the execution of the \$3.6 million convertible loan facility in April 2015 and the existing funding arrangements with Denbury for the development of the Grieve CO<sub>2</sub> EOR Project, there exists material future timing and other uncertainties. These conditions indicate a material uncertainty which may cast significant doubt over Elk's ability to continue as a going concern.

The company does not expect to have a significant revenue stream from operations until after the first material oil production is achieved at the Grieve CO<sub>2</sub> EOR Project. Current guidance from the operator indicates that the Grieve CO<sub>2</sub> EOR Project is expected to commence no later than 1 September 2017. As such in the interim the company must rely on raising money from one or more other sources. These sources may include (1) the sale of assets, (2) securing a material new equity investment into the company, (3) securing senior, mezzanine or hybrid debt facilities, (4) extending / conversion of existing debts, or (5) through some form of corporate transaction. Since year end the company has (1) raised \$2.52m (before costs), (2) entered into a non-binding Letter of Intent (LOI) with Denbury Onshore LLC (Denbury) for the restructuring of the Grieve CO<sub>2</sub> Enhanced Oil Recovery (EOR) Project (Grieve Project) and (3) has made substantial progress towards securing the debt and equity capital necessary to fund its contractual share of the Grieve Project under the LOI.

A combination of one or more of these sources of funding may be used to enable the company to retain a substantial and improved interest in the Grieve CO<sub>2</sub> EOR Project which is expected to generate significant cash flows from operations in the future from 2017 onward. At the date of this report, Elk is in discussions with various parties about one or more such arrangements.



**Note 1. Significant accounting policies (continued)**

While the group has limited financial resources in the period until it has material cash flow from projects and executed agreements and funding arrangements subject to the LOI with Denbury, which are progressing well and within timeframes agreed between Denbury and the company, it will need to raise money from time to time in pursuit of its objectives to grow the value of the company. Any such fund raisings may be subject to factors beyond the control of the consolidated entity and its Directors. When the group requires further funding for its programs, then it is the group's intention that the additional funds would be raised in a manner deemed most expedient by the Board of Directors at the time, taking into account working capital, exploration results, budgets, share market conditions, capital raising opportunities, availability of debt funding and the interest of investors in co-participation in the consolidated entity's programs and projects. It is the group's plan that any required capital will be raised by any one or a combination of the following: farm out, sale of assets, a corporate transaction, secured and/or unsecured loan facility, placement of shares to excluded offerees, pro-rata issue to shareholders, and/or a further issue of shares to the public.

Management has demonstrated a successful track record of buying and selling assets as well as long history of successfully raising required funding to support project development and overheads. Despite the group's strong asset position, there is uncertainty that adequate funds will be available when needed in the period until the company's Grieve CO<sub>2</sub> EOR Project is generating material cash flow. However the current status of LOI with Denbury and discussions with debt and equity financiers are progressing well with the company, within timeframes agreed between Denbury and the company. Notwithstanding, management believe that there is significant value of assets in excess of carrying value which would deliver cash above present cash needs if asset sales were required. In this regard the financial report has been prepared on the basis of a going concern, as the Directors believe that adequate funding will be raised to enable the group to pay its debts as and when they become due for a period of twelve months from the date of approving this report.

Should the group be unable to meet its short term funding requirements at the times required, it may be necessary to realise some or all assets and discharge its liabilities in the normal course of business at amounts different to those stated in the financial statements. The financial statements do not include any adjustment relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

**Note 2. Operating segments**

The group operates in one segment which is oil and gas properties in the US. The group conducts its activities through its subsidiaries based in Casper, Wyoming, US and comprise administration, production, exploration, evaluation and development of oil and gas fields and ownership of pipelines. The parent company of the group is based in Sydney, Australia, and comprises the corporate head office function.

The information reported to the Chief Operating Decision Makers ('CODM') identified as the Managing Director and the Board, comprises mainly the US assets and direct exploration expenditure in assessing performance and allocation of resources entirely generated by the US, as disclosed in the financial statements.

*Geographical information*

The non-current assets of the group are all located in US.

**Note 3. Revenue**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<i>Sales revenue</i>		
Sale of oil	-	30,770
<i>Other revenue</i>		
Interest and other revenue	1,756	20,215
Revenue	<u>1,756</u>	<u>50,985</u>

**Note 4. Expenses**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Loss before income tax includes the following specific expenses:		
<i>Professional and corporate services</i>		
Accounting, auditing and tax fees	150,425	131,258
Consultants fees	126,620	142,811
Share registry, ASIC and ASX fees	31,486	50,509
	<u>308,531</u>	<u>324,578</u>
<i>Director and employee costs</i>		
Non-executive directors fees	112,500	128,626
Employee benefits	719,266	583,157
Share -based payments	52,905	87,208
	<u>884,671</u>	<u>798,991</u>
<i>Other expenses</i>		
Foreign exchange (gain)/loss	(159)	(409)
Other - retired leases/disposed assets	-	10,026
Loss arising from Crow Tribe Dispute *	1,199,526	-
	<u>1,199,367</u>	<u>9,617</u>

\* As per the announcement on the ASX on 23 February 2016, the company has been advised that the US District Court in Montana has issued a decision in favour of the Bureau of Indian Affairs (BIA) in relation to a permit dispute with the Crow Tribe. While Elk is seeking further legal advice including an appeal to the Court's decision, a liability has been recognised in the current period financial statements in accordance with the requirements of AASB 110 Events after the Reporting Period. See Note 14 for further details.

**Note 5. Current assets - non-current assets classified as held for sale**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Oil and gas properties - Grieve pipeline	<u>-</u>	<u>813,479</u>

*Grieve oil pipeline*

In 2014, the Grieve oil pipeline was transferred from non-current assets at carrying value. Offers received to date have not materialised in any sale at the date of this report. On the basis that the value of these offers were higher than carrying value, the directors estimate the carrying value remains appropriate.

During the period ended 31 December 2015, the Directors have decided to retain this asset and as such the asset has been transferred to oil and gas properties. The value in use of the Grieve pipeline under the LOI with Denbury exceeds the carrying value of the asset in non-current assets.

**Note 6. Non-current assets - Oil and gas properties - Grieve project**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Oil properties acquired - at cost	53,023	50,550
Less: Accumulated amortisation	<u>(20,466)</u>	<u>(19,512)</u>
	32,557	31,038
Oil field plant and equipment - at cost	1,152,694	265,643
Less: Accumulated amortisation	<u>(313,781)</u>	<u>(261,162)</u>
	838,913	4,481
Oil field development expenditure - at cost	34,485,149	26,986,410
Less: Accumulated amortisation	<u>(1,266,275)</u>	<u>(1,207,221)</u>
	33,218,874	25,779,189
Closure costs	104,205	215,690
	<u>34,194,549</u>	<u>26,030,398</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

<b>Consolidated</b>	<b>Oil and gas properties \$</b>
Balance at 1 July 2015	26,030,398
Expenditure during the half-year	6,218,429
Exchange differences	1,233,549
Provision for closure costs	(98,503)
Pipeline transfer from current assets: non-current assets classified as held for sale	853,272
Amortisation expense (including amortisation for closure costs)	<u>(42,596)</u>
Balance at 31 December 2015	<u>34,194,549</u>

Additions above relate to equipment costs attributed to the project during the year. Expenditure includes field/well development costs capitalised during the year.

**Note 7. Non-current assets - Oil and gas properties - South Singleton project**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Oil field plant and equipment - at cost	54,989	-
Oil field development expenditure - at cost	82,276	-
Closure costs - at cost	201,379	-
	<u>338,644</u>	<u>-</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

<b>Consolidated</b>	Oil and gas properties \$
Balance at 1 July 2015	-
Additions	138,042
Provision for closure costs	201,379
Exchange differences	<u>(777)</u>
Balance at 31 December 2015	<u>338,644</u>

Additions above relate to equipment costs attributed to the project during the year. Expenditure includes field/well development costs capitalised during the year.

**Note 8. Non-current assets - Oil and gas properties - Singleton project**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Oil field development expenditure - at cost	38,072	21,125
Less: Accumulated amortisation	<u>(663)</u>	<u>-</u>
	37,409	21,125
Oil field development expenditure - at cost	1,338,193	1,245,856
Closure costs	1,590,628	1,616,350
	<u>2,966,230</u>	<u>2,883,331</u>



**Note 8. Non-current assets - Oil and gas properties - Singleton project (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

<b>Consolidated</b>	Oil and gas properties \$
Balance at 1 July 2015	2,883,331
Additions	15,927
Expenditure during the half-year	32,083
Exchange differences	140,342
Provision for closure costs	(77,716)
Amortisation expense (including amortisation for closure costs)	(27,737)
	<u>2,966,230</u>
Balance at 31 December 2015	<u>2,966,230</u>

Additions above relate to equipment costs attributed to the project during the year. Expenditure includes field/well development costs capitalised during the year.

**Note 9. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>31 December 2015 \$</b>	<b>30 June 2015 \$</b>
Trade payables	9,640,741	4,156,958
Accruals and other liabilities	1,459,332	219,832
	<u>11,100,073</u>	<u>4,376,790</u>

Trade payables are non-interest bearing and generally on 30 to 60 day terms.

**Note 10. Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>31 December 2015 \$</b>	<b>30 June 2015 \$</b>
Loan - other	3,884,234	3,582,829
Lease liability	-	2,531
	<u>3,884,234</u>	<u>3,585,360</u>

Unless stated otherwise, the above loans are stated at amortised cost.

**Note 10. Current liabilities - borrowings (continued)**

*Financing arrangements*

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total facilities		
Convertible loan - secured	3,884,234	3,582,829
Used at the reporting date		
Convertible loan - secured	3,884,234	3,582,829
Unused at the reporting date		
Convertible loan - secured	-	-

On 16 April 2015, the company entered into 12.5% interest (compounded monthly) secured convertible loan facilities agreements totalling \$3.6 million for a period of 12 months. Interest is accrued and is either paid together with the principal at the end of the loan term or can be converted into new shares of the company at \$0.038 per share.

**Note 11. Non-current liabilities - borrowings - Denbury JV**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Financial liability to Denbury JV	20,882,795	18,930,906

The Denbury financial liability relates to the Elk Petroleum Inc's portion of JV costs incurred at the Grieve EOR project, funded under Tranche 2 of the loan financing arrangements as per Elk's agreement with Denbury Onshore, LLC (a subsidiary of Denbury Resources NYSE:DNR) executed in April 2011, plus interest accrued under that agreement. The repayment of this funding is an obligation against future revenue from the Grieve project.

In line with billing arrangement, a further amount of \$9,274,827 is included within trade payables as outstanding to Denbury Onshore LLC as at 31 December 2015 (30 June 2015: \$3,929,881).

**Note 12. Equity - issued capital**

	<b>Consolidated</b>			
	<b>31 December</b>	<b>30 June</b>	<b>31 December</b>	<b>30 June</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2015</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Ordinary shares - fully paid	222,780,059	201,113,393	38,405,967	37,761,520

**Note 12. Equity - issued capital (continued)**

*Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$
Balance	1 July 2015	201,113,393		37,761,520
Issue of shares	2 December 2015	13,333,333	\$0.03	400,000
Issue of shares	7 December 2015	8,333,333	\$0.03	250,000
Share issue costs				(5,553)
Balance	31 December 2015	<u>222,780,059</u>		<u>38,405,967</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**Note 13. Equity - dividends**

There were no dividends paid, recommended or declared during the current or previous financial half-year.

**Note 14. Crow Tribe**

The company is involved in a legal dispute with the Crow Tribe over the validity of an agreement to lease at Uluru, Montana, USA. The company has appealed a decision made by the Bureau of Indian Affairs (BIA) that a valid lease existed. The Interior Board of Indian Appeals (IBIA) took Elk's appeal under advisement on March 31, 2011.

During 2013, the IBIA provided an opinion on the matter. That opinion has been received and the IBIA has rejected Elk's appeal of the earlier Bureau of Indian Affairs decision in favour of the Crow Tribe.

As a result of the IBIA's decision and Elk's view of the matters in dispute, in March 2014, Elk filed a Complaint seeking Declaratory Relief in a Montana permit dispute with the Crow Tribe. This matter after being pursued through a number of judicial bodies established to deal with such matters through the Bureau of Indian Affairs will now be heard at Elk's request by a US District Court in Montana. The Crow Tribe filed an Answer and Counterclaim to Elk's Complaint for Declaratory Relief in February 2015 and Elk's attorney has responded to this Counterclaim.

On 23 February 2016, the company has been advised that the US District Court in Montana has issued a decision in favour of the BIA, including that Elk is liable for payments under the Indian Mineral Development Act Agreement (IMDAA) and owes BIA US\$869,177.

While Elk is seeking further legal advice and evaluating its options including an appeal to the Court's decision, a liability has been recognised in the current period financial statements in accordance with the requirements of AASB 110 Events after the Reporting Period.

**Note 15. Events after the reporting period**

On 11 January 2016, the Company has announced that it has undertaken a private placement ("Placement" to sophisticated investors to raise a total of \$2.52 million (before costs), being for the continued exploration and feasibility study expenditure on the Company's current projects and general working capital.

**Note 15. Events after the reporting period (continued)**

As outlined in Note 14, on 23 February 2016 the company has been advised that the US District Court in Montana has denied Elk's motions and issued a decision in favour of the Bureau of Indian Affairs (BIA), including that Elk is liable for payments under the Indian Mineral Development Act Agreement (IMDAA) and owes BIA US\$869,177 in relation to the Crow Tribe Dispute. While Elk is seeking further legal advice and evaluating its option including an appeal to the Court's decision, a liability has been recognised in the current period financial statements in accordance with the requirements of AASB 110 *Events after the Reporting Period*.

As previously announced on 21 December 2015, Elk and Denbury entered into a non-binding letter of intent ("LOI") outlining the basis for the restructuring of the Grieve CO<sub>2</sub> EOR Project Joint Venture pursuant to which the Company will fund US\$ 55 million to complete the project and substantially increase its working and beneficial interest in the project reserves and cash flows. Under the LOI, the target date for finalising the documentation and finance was 1 February 2016. Although final documentation between Elk and Denbury has not yet been completed, the parties believe that significant progress has been achieved on the main project agreements – the master development agreement, the turnkey construction agreement and the revised joint venture unit operating agreement. With this progress, the deadline for completing definitive documentation and completing the financing of the JV restructure has been extended to 31 May 2016.

No other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

**Note 16. Earnings per share**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax attributable to the owners of Elk Petroleum Ltd	<u>(3,463,831)</u>	<u>(1,905,717)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>204,419,552</u>	<u>195,234,539</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>204,419,552</u>	<u>195,234,539</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(1.69)	(0.98)
Diluted earnings per share	(1.69)	(0.98)



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2015 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



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**Neale Taylor**

Chairman

15 March 2016

Sydney



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Australia

## **INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Elk Petroleum Limited

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Elk Petroleum, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### **Directors' Responsibility for the Half-Year Financial Report**

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Elk Petroleum Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Elk Petroleum Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.



#### **Conclusion**

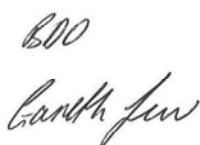
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Elk Petroleum Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

#### **Emphasis of matter**

Without modifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon funding the future successful development of its Grieve oil project. Either through sale of assets, securing a material new equity investment into the company, securing senior mezzanine or hybrid debt facilities, extending or conversion of existing debts or through some form of corporate transaction. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### **BDO East Coast Partnership**



**Gareth Few**  
**Partner**

Sydney, 15 March 2016