

3 June 2016

Dear Optionholder,

Elk Petroleum Ltd - Pro Rata Non-Renounceable Entitlement Offer Notice to Optionholders

On 3 June 2016, Elk Petroleum Ltd ACN 112 566 499 (**Elk** or **Company**) announced a pro rata non-renounceable entitlement offer of one new fully paid ordinary share in the Company (**New Share**) for each existing fully paid ordinary share in the Company held by the eligible shareholders at the Record Date (defined below), at an issue price of A\$0.075 per New Share to raise approximately A\$30.76 million (before expenses) (**Entitlement Offer**). Shareholder approval is not required for the Entitlement Offer.

Based on the capital structure of the Company (and assuming no convertible securities are converted into Shares prior to the Record Date) a total of up to approximately 410,073,919 New Shares will be issued pursuant to the Entitlement Offer and the maximum amount raised will be approximately A\$30,755,544.

The Entitlement Offer is being made in accordance with section 708AA of the Australian *Corporations Act 2001* (Cth) (**Corporations Act**) (as modified by the Australian Securities and Investments Commission (**ASIC**)), meaning that no prospectus needs to be prepared. The Company lodged an Offer Booklet for the Entitlement Offer (**Offer Booklet**) on the ASX market announcements platform on 3 June 2016.

The Entitlement Offer is partially underwritten by Taylor Collison Limited ABN 53 008 172 450 (**Taylor Collison** or the **Underwriter**) to the value of A\$15 million less any application monies which may be received from sub-underwriters already appointed taking up their rights to subscribe for New Shares pursuant to the Offer Booklet. Republic Investment Management Pte. Ltd. (incorporated in Singapore, **Republic**, which is a substantial shareholder of Elk) has agreed with the Underwriter to sub-underwrite approximately A\$9.72 million of the Underwriter's underwriting commitment under the Entitlement Offer.

The Underwriter may continue to engage additional sub-underwriters in relation to the remainder of the amount that it has agreed to underwrite. The Company agreed to pay the Underwriter a management fee of 1.5% and an underwriting fee of 3.0% (both of which are exclusive of GST) of the amount which the Underwriter has agreed to underwrite (excluding funds raised as a result of the Underwriter acting as nominee for Ineligible Shareholders as described below and in the Offer Booklet). Any sub-underwriting fees are payable by the Underwriter, not the Company.

Under the terms of the Entitlement Offer, eligible shareholders will also be given an opportunity to apply for New Shares in excess of their entitlement through a shortfall facility (**Shortfall Facility**). New Shares will only be available under the Shortfall Facility in the event that other shareholders do not take up all of their entitlements. Allocations under the Shortfall Facility will be determined by the Company.

Use of funds

The funds to be raised under the Entitlement Offer are proposed to be used primarily to provide initial funding of capital costs associated with the Grieve CO₂ Enhanced Oil Recovery Project and the proposed restructuring of the Grieve Joint Venture as outlined in the Offer Booklet and the Company's ASX announcements.

The indicative use of the gross proceeds of the Entitlement Offer is as follows:

Indicative use of funds*	A\$ (millions)
Grieve project funding:	
CO ₂ purchase and project management	5.56
Engineering finalisation and documentation	1.39
CO ₂ extraction and reinjection equipment purchase	8.03
Mechanical contracts	12.10
Sub-total	27.08**
Elk corporate working capital	2
Costs of the Entitlement Offer	1.68
Total	30.76

* Sub totals may be subject to rounding errors

**Assumes AUD/USD 0.72

The Company's Board reserves the right to alter the way in which funds are applied.

Eligibility Criteria

The Entitlement Offer comprises an offer to shareholders who:

- 1 are the registered holders of Elk shares as at 7.00pm (Sydney time) on 8 June 2016 (**Record Date**); and
- 2 have a registered address in Australia, New Zealand or Singapore (**Eligible Shareholders**).

The New Shares will rank equally with all existing fully paid ordinary shares in the Company

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already on issue.

Shareholders of Elk who are not Eligible Shareholders as at 7.00pm (Sydney time) on the Record Date are not entitled to participate in the Entitlement Offer (**Ineligible Shareholders**). However, Elk has (subject to ASIC approval) appointed Taylor Collison as the nominee to subscribe for and sell the New Shares which Ineligible Shareholders would otherwise have been entitled to, as described in the Offer Booklet. Elk reserves the right to determine whether a Shareholder is an Eligible Shareholder or an Ineligible Shareholder.

Upon completion of the Entitlement Offer, assuming all entitlements are accepted and no convertible securities are converted into Shares prior to the Record Date, the number of Shares in the Company will increase from 410,073,919 currently on issue to approximately 820,147,838.

A copy of the Offer Booklet is available on ASX's website. Eligible Shareholders will be mailed an Offer Booklet together with an Entitlement and Acceptance Form.

Optionholders

The terms and conditions of the options you currently hold in the Company's issued capital do not entitle you to participate in the Entitlement Offer unless you exercise your options in time for new shares in the Company to be allotted and to be entered on the Company's register of members on or before 7.00pm (Sydney time) on the Record Date.

Please note it is not compulsory to exercise your options.

If you do wish to exercise your options and thereby obtain entitlement to participate in the Entitlement Offer, you will need to deliver the following to the Company at Suite 4, Level 9 341 George Street, Sydney, NSW 2000:

- 1 a notice of exercise of options;
- 2 an option certificate (where the options are certificated) or a copy of a holding statement (where the options are uncertificated) in respect of those options to be exercised; and
- 3 payment for the exercise price in respect of those options to be exercised by way of bank cheque made out to '**Elk Petroleum Limited**'.

The above must be received in sufficient time for the Company to allot and issue your shares such that you are on the Company's register of shareholders by 7.00pm (Sydney time) on the Record Date and are able to participate in the Entitlement Offer.

Before deciding whether to exercise any or all of your options, you should read the Offer Booklet in its entirety and the Company's recent announcements released to the ASX market announcements platform.

This notice is important and requires immediate attention. If you have any queries concerning the Entitlement Offer, please contact your financial adviser or the Company's Share Registry

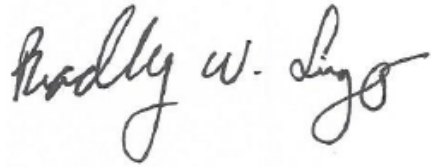
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on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) between 8.30am and 5.00pm (Sydney time) from Monday to Friday (excluding public holidays).

Yours sincerely

A handwritten signature in black ink, reading "Bradly W. Lingo". The signature is written in a cursive, flowing style.

Mr Brad Lingo
Managing Director and CEO
Elk Petroleum Ltd (ASX:ELK)

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