

Q1 QUARTERLY
SEPTEMBER 2016

ELK PETROLEUM 





CORPORATE

During the first quarter, the Company completed two significant funding transactions in support of the Grieve CO₂ EOR Project restructuring. The first major funding transaction during the quarter was the financial closing on a major debt facility for the Grieve Project. The Company completed closing a senior term loan facility with Benefit Street Partners ("BSP") for US\$58 million for the Grieve Project JV restructure on Friday 5 August 2016. Funds under the Term Loan facility with BSP are to be used to fund the US\$55 million in field development expenditures committed to by Elk as part of the Grieve JV restructure, minor upgrades to Elk's 100% owned Grieve oil pipeline and associated costs. Funds under the Term Loan facility are immediately available.

In conjunction with putting in place the Term Loan facility the Company has implemented a significant oil price hedging program to underwrite a strong oil price going forward for the Grieve Project. Under this program the Company has purchased US\$45/bbl put options for 75% of its share of forecast oil production from the Grieve Project during calendar year 2017 and 2018. The put options create a US\$45/bbl floor price for the hedged volumes, but do not limit the oil price upside for the project.

The second major funding transaction was the completion of equity raising under the entitlement offer launched during June 2016. On 3 June 2016, the Company launched an entitlement offer seeking to raise approximately \$30.1 million and

on 27 June 2016 issued approximately 261.6 million new fully paid ordinary shares at \$0.075 per share to raise \$19.6 million (before costs). In completing the entitlement offer during August and September 2016 Elk issued approximately 146.5 million shares priced at \$0.075 per share to sophisticated investors and institutional investors new to the Elk register raising an additional \$11 million.





GRIEVE CO₂ EOR PROJECT

During the first quarter, the Company executed final binding agreements and completed the restructure of the Grieve Project JV with Denbury on Thursday 4 August. The Grieve restructure delivers a 51% increase in Elk net 2P Reserves to 5.3 MMbbls. The key terms of the completion of the restructure of the Grieve CO₂ EOR Project joint venture between Elk and Denbury are:

- Elk's working interest in Grieve Project increases to 49% with the right to receive 70% of the net operating cash flow from the first 2 million barrels of production;
- Denbury remains the Operator of the Grieve Project JV and provides a firm commitment to complete the Grieve CO₂ EOR Project development pursuant to a fixed price turnkey contract containing a detailed field development and execution plan and detailed completion milestones;
- Under the fixed price turnkey contract, Elk will 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 and any additional CO₂ up to 82 BCF will be provided on advantageous commercial terms at Denbury's cost of CO₂;
- All of the oil production from the Grieve Project will be shipped via Elk's 100%-owned and operated Grieve Oil Pipeline under a binding long-term regulated pipeline tariff at a haulage charge of US\$3.00 per barrel;
- Denbury has transferred to Elk a 49% interest in any Grieve Project assets with an estimated value of approximately US\$60 million;
- Denbury will forego recovery from Elk 100% of Grieve Project funding indebtedness with an estimated amount of US\$20 million associated with the prior joint venture funding arrangements; and
- Elk and Denbury have entered into a binding settlement agreement under which all prior claims arising out of the original Grieve Project JV arrangements will be released including legal claims included in the civil lawsuit which the parties previously withdrew pending negotiating a commercial settlement (see ASX announcement 16 July 2015).

From an operational perspective, the Grieve Field enhanced oil recovery project (EOR) injection of CO₂ and water continues and field repressurisation is on schedule, with production reinstatement targeted for late 2017 early 2018. The remaining major engineering works to be completed on Grieve Project, the construction of the oil processing and CO₂ recompression facilities works, are on track.





GRIEVE OIL PIPELINE

Elk through its subsidiary Elk Grieve Oil Pipeline, LLC owns and operates 100% the 32-mile-long, 8-inch diameter steel export oil pipeline that extends from the Grieve CO₂ EOR project to a receiving station at the Spectra Energy oil storage facility in Casper, Wyoming, our point of oil sale. During the Quarter Denbury entered into an oil transportation agreement with Elk to use the pipeline to transport its

share of Grieve oil to Casper, for a charge of US\$3/ bbl (escalated) on 100% of production.

In addition, starting in mid-August Elk has safely undertaken and completed under budget all corrosion related pipeline repairs as of 6th October, with minimum disturbance for our stakeholders. This included digging 64 inspection trenches

along the pipes length and renewing around 10,000 ft of pipeline. In the coming Quarter, we will be completing cathodic protection, and finalising design and long lead items ordering for equipment to connect into Grieve and Spectra facilities.

SINGLETON SOUTH

Singleton South Field, Nebraska, 100% Elk owned and operated. During the Quarter Elk mobilised crews and safely re-entered, worked over and production tested the lower Muddy Formation J3 oil prone sand in Opis-1P well. Twenty feet of behind pipe J3 Sand with similar characteristics to the nearby Singleton Unit oil production well number 5 was stimulated and placed

on pump. Oil was recovered on test from the J3 sand, however it has been deemed sub economic, with the sand having lower permeability and higher water saturation than the Singleton Unit 5 well 1,200 feet to the north. Post well analysis has determined that the J3 sand at this well location is not in communication with the Singleton Unit 5 well, being outside

the better-quality sand fairway of the Singleton Unit. While the results from the Opis-1P test were discouraging, there remains significant oil production potential in Nebraska, particularly for EOR projects.

The well will not be abandoned as its potential as a water injection source to support a future Singleton Unit EOR Project is being evaluated.





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 report relating to the Grieve CO₂ EOR Project, operated by Denbury Resources, is based on an independent review and audit conducted by VSO 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 VSO 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.

VSO Petroleum Consultants, Inc. was formally known as Pressler Petroleum Consultants, Inc. The Company would like to note that it has not changed the independent

petroleum consultant used to provide an independent expert's certification of reserves and resources of the Company. The Company has been advised that effective as of 31 December 2015, Pressler Petroleum Consultants, Inc. is known as VSO Petroleum Consultants, Inc. and that the firm remains the same independent petroleum consulting firm.

The information in this report 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 report. 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 report of the matters based on the information in the form and context in which it appears.

FOR FURTHER INFORMATION PLEASE CONTACT:

Brad Lingo
Managing Director/CEO
+61 2 9093 5400
ir@elkpet.com
www.elkpet.com

ABOUT ELK PETROLEUM

Elk Petroleum Limited ABN 38 112 566 499 (ASX: ELK) is an oil and gas producer and developer 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 established enhanced oil recovery (EOR) technologies to mature oil fields. This strategy significantly de-risks the process of finding and exploiting oil field reserves.

Leveraging proven EOR technology and experience particularly those involving CO₂ flood technology, Elk is currently involved in two mature oil fields in the Rocky Mountain region of the USA and is pursuing other opportunities that will benefit from the application of EOR technologies.

For more information on Elk, see Elk's most recent Investor Presentations which are available on Elk's website www.elkpet.com.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

ELK PETROLEUM LIMITED

ABN

38 112 566 499

Quarter ended ("current quarter")

30 SEPTEMBER 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation		
(b) development	(11,586)	(11,586)
(c) production	(165)	(165)
(d) staff costs	(644)	(644)
(e) administration and corporate costs	(1,290)	(1,290)
1.3 Dividends received (see note 3)		
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	(108)	(108)
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(13,790)	(13,790)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(383)	(383)
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets	(94)	(94)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other		
	- Payment to acquire put options	(5,774)	(5,774)
2.6	Net cash from / (used in) investing activities	(6,251)	(6,251)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	9,994	9,994
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options	(708)	(708)
3.5	Proceeds from borrowings	37,682	37,682
3.6	Repayment of borrowings ⁽¹⁾	(20,340)	(20,340)
3.7	Transaction costs related to loans and borrowings	(6,141)	(6,141)
3.8	Dividends paid		
3.9	Other		
	- Amount transferred to Reserve Account as required under the financing arrangement with Benefit Street Partners ("BSP") ⁽²⁾	(13,775)	(13,775)
3.10	Net cash from / (used in) financing activities	6,712	6,712

⁽¹⁾ Payment of Crow Tribe monthly settlement instalments (\$172,000) and repayment of borrowings associated with Elk's USD 55m Grieve restructure agreement with Denbury (\$20,168,000).

⁽²⁾ US dollar debt service reserve account controlled by Benefit Street Partners associated with Elk's term loan agreement. Balance at 30 September 2016 \$13,775,000.

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	18,103	18,103
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(13,790)	(13,790)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,251)	(6,251)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,712	6,712
4.5	Effect of movement in exchange rates on cash held	(145)	(145)
4.6	Cash and cash equivalents at end of period	4,629	4,629

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	4,629	18,103
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,629	18,103

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
274
-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

8. Financing facilities available

Add notes as necessary for an understanding of the position

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	75,976	37,441
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The company has a senior term loan facility with Benefit Street Partners for US\$58 million for the Grieve Project JV restructure. Term loan funds are only available to make progress payments associated with Elk's USD 55m Grieve restructure agreement with Denbury and minor upgrades to Elk's 100% owned Grieve oil pipeline and associated costs.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	-
9.2 Development ⁽³⁾	14,950
9.3 Production	5
9.4 Staff costs	700
9.5 Administration and corporate costs	500
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	16,155

⁽³⁾ The abovementioned estimated Development cash outflow of \$14,950,000 will be primarily funded from draw down of Elk's US\$58m financing facility provided by Benefit Street Partners.

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A	N/A	N/A	N/A
10.2	Interests in mining tenements and petroleum tenements acquired or increased				
	Natrona County, Wyoming	WYW-173011	Lease: Grieve (Outside) Federal	35%	49%
	Natrona County, Wyoming	WYW-173178	Lease: Grieve (Outside) Federal	35%	49%
	Natrona County, Wyoming	WYW-015813	Lease: Grieve Unit Federal	35%	49%
	Natrona County, Wyoming	WYW-015814	Lease: Grieve Unit Federal	35%	49%
	Natrona County, Wyoming	WYW-015815	Lease: Grieve Unit Federal	35%	49%
	Natrona County, Wyoming	WYW-016008	Lease: Grieve Unit Federal	35%	49%
	Natrona County, Wyoming	WYW-015824	Lease: Grieve (In & Out) Federal Lease: Grieve Unit – Surface Use	35%	49%

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Company secretary)

Date: 31 October 2016

Print name: David Franks

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

Table 1 - Summary of petroleum tenements as at 30 September 2016

Project	Location	Lease Reference	Interest
Grieve (Outside) Federal	Natrona County, Wyoming	WYW-181111	100%
Grieve (Outside) Federal	Natrona County, Wyoming	WYW-181112	100%
Grieve (Outside) Federal	Natrona County, Wyoming	WYW-173011	49%
Grieve (Outside) Federal	Natrona County, Wyoming	WYW-173178	49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-015813	49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-015814	49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-015815	49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-016008	49%
Grieve (In & Out) Federal Grieve Unit – Surface Use	Natrona County, Wyoming	WYW-015824	49%
Singleton Unit	Banner County, Nebraska, USA	N/A	100%
South Singleton (OPIS) Unit	Banner County, Nebraska, USA	N/A	100%
Singleton Leases (7)	Banner County, Nebraska USA	N/A	100%

Table 2 - Summary of petroleum tenements acquired in Quarter

Project	Location	Lease Reference	Interest
Grieve (Outside) Federal	Natrona County, Wyoming	WYW-173011	Increased from 35% to 49%
Grieve (Outside) Federal	Natrona County, Wyoming	WYW-173178	Increased from 35% to 49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-015813	Increased from 35% to 49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-015814	Increased from 35% to 49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-015815	Increased from 35% to 49%
Grieve Unit Federal	Natrona County, Wyoming	WYW-016008	Increased from 35% to 49%
Grieve (In & Out) Federal Grieve Unit – Surface Use	Natrona County, Wyoming	WYW-015824	Increased from 35% to 49%

Table 3 - Summary of petroleum tenements disposed of in Quarter

Project	Location	Lease Reference	Interest
N/A	N/A	N/A	N/A