Elk Petroleum Limited: Quarterly Activities and Cashflow Report, ended December 2016

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Sydney, Jan 31, 2017 - Elk Petroleum Limited (ASX:ELK) (OTCMKTS:EKPTF) are pleased to provide the Company's latest Quarterly Activities and Cashflow Report for the period ended December 2016.

HIGHLIGHTS

Grieve CO2 EOR Project on Schedule

- Over 36 BCF of CO_2 injected into Grieve Field with CO_2 and water injection continuing at 25-35 mmscf/day of CO_2 and 4,650 bwpd with field pressures increasing in line with expectations.

- Final detailed engineering for construction of balance of oil production and CO_2 recycle facilities completed by Denbury and Jacobs Engineering.

- Detailed project construction schedule agreed with commencement of new construction works to commence April/May 2017.

- Project schedule confirms expected first oil production late 2017/early 2018.

Grieve Oil Pipeline Works Completed

- Completed pipeline repair and replacement works to Grieve Crude Oil Pipeline.

- Repair works were completed within budget and on schedule.

- Remaining works involve installation of additional cathodic protection facilities which commenced Jan 2017.

Madden Gas Field Acquisition

- Elk negotiated acquisition of Freeport McMoRan's interest in Madden Gas Field and Lost Cabin Gas Plant.

- Madden Gas Field ranked by US Govt Energy Information Administration as 33rd largest gas field in USA by Proven Reserves.

- Lost Cabin Gas Plant is 2nd largest CO_2 supplier for enhanced oil recovery in Wyoming providing Elk with access to meaningful CO_2 supplies for future EOR projects.

- Acquisition delivers net to Elk approximately 3,400 BOEPD of production and expected A$2.3 million net operating cash flow for March 2017 Quarter.

- Upon completion of purchase, Elk Producing 1P Reserves will be 12 MMboe and 2P Reserves will increase to approximately 18 MMboe - a 250% increase.

Solid and Improving Financial Position

- Cash on deposit of $15.3 million, with $14.2 million held in a debt service reserve account dedicated to the completion of the Grieve Project under the Grieve Term Loan.

- Grieve Project substantially funded by Benefit Street Partners under Grieve Term Loan with US$43.5 million funded.

- Cash flow positive expected in March 2017 quarter with projected Elk net operating cash flow of $2.3 million.

- Substantial and sustained improvement of oil and gas prices.

GRIEVE CO2 EOR PROJECT

Elk 49%/Denbury Resources (51% - operator)
Elk Net Reserves = 1P Reserves = NA/2P Reserves = ~5.3 MMBOE

During the December Quarter substantial progress has been achieved with the completion of the final engineering for the completion of the Grieve Central Production Facilities ("GCPF") completed by Jacobs Engineering and delivered by Denbury to Elk. As part of the finalization of these engineering and construction drawings, in mid-November a comprehensive HAZOP review was conducted in which Elk participated along with the Grieve Project independent engineer. The Company was very impressed with the results of this review with Denbury, Jacobs and the independent engineer and the involvement of the Elk Team in this review process.

In early December, the Company also held its first semi-annual Grieve Project management meeting since the completion of the Grieve Project joint venture restructure. During these meetings, the Company reviewed with Denbury a comprehensive first-look updated field development plan and project execution schedule.

Based on this updated field development plan, Denbury confirmed that the overall recoveries expected from the Grieve Field are expected to be in-line with Elk's independent reserves assessment of 12.5 mmbbls 2P Gross Recoverable oil from the Project. The final field development plan is expected to be completed by the end of February 2017.

The overall project execution schedule presented by Denbury is consistent with Elk's prior guidance that the Grieve Project will reach completion and commence first oil production by late 2017/early 2018. Under the project execution schedule presented by Denbury, field development well and construction work is expected to commence in the April/May 2017 time period with the commencement of the remaining well workover projects and well testing to be completed in August 2017. In parallel with this the remaining infield oil production and CO2 and water injection flowlines work will commence in July 2017 and be completed in October 2017.

The detailed construction schedule also contemplates that the GCPF mechanical construction contract and completion of the installation of these facilities will commence in early June 2017 and be completed by December 2017. As part of this work the installation of instrumentation and electrical control systems will commence in August 2017. Following the completion of the GCPF mechanical construction contract and installation, commissioning of the facilities will commence.

This review, field development plan and scheduling process demonstrates the new level of engagement of Elk with Denbury in the Grieve Project and is clear demonstration of the improved relationship with Denbury as operator following the restructure of the Grieve Project joint venture.

During the December Quarter, substantial progress has also been made on procurement of all the major plant and equipment required for the fabrication and construction of the GCPF and is expected to be completed by the end of February 2017.

CO2 injection into the Grieve Field also continued with CO2 injection continuing at 25-35 mmscf/day and water injection at approximately 4,650 barrels of water per day. As of the end of the quarter, a total of the pressure in the Grieve Field has increased to approximately 2600+ PSI. As of 31 December 2016, approximately 36 BCF of CO2 has been injected in to the Grieve Field and it is expected that 40.5 BCF of CO2 will have been injected into the Grieve Field by March 2017. Under the current field development plan, at first oil production it is expected that approximately 52 BCF of CO2 will be injected into the Grieve Field.

GRIEVE OIL PIPELINE

Elk (100% - operator)

During the December Quarter, Elk completed the repair and pipeline replacement works required to ready the Grieve Crude Oil Pipeline for production. These works included the replacement of approximately 3,000 meters of pipeline. The repairs were completed over a number individual excavation locations along the pipeline and completed within 30-days.

The overall pipeline repair works were completed on schedule and within budget. The remaining Grieve Crude Oil Pipeline upgrade work involves the installation of additional cathodic protection facilities along the pipeline.

This work commenced in January 2017 and is expected to be completed during February 2017.

MADDEN GAS FIELD/LOST CABIN GAS PLANT ACQUISITION

Elk (~14%/ConocoPhillips (46% - operator)
Elk Net Reserves = 1P Reserves = ~11.7 MMBOE/2P Reserves = ~13.4 MMBOE

Following the end of the December 2016 Quarter, on 4 January 2017, Elk announced (see ASX release) that it had entered into a formal purchase and sale agreement with subsidiaries of Freeport-McMoRan Inc. ("FCX") to acquire all of FCX's interest in the Madden Gas Field, the Madden Deep Unit Gas Field and the Lost Cabin Gas Plant for US$20 million. The Madden Gas Field and the Lost Cabin Gas Plant are located in Natrona and Freemont counties, Wyoming approximately 95 kms (60 miles) from Elk's Grieve CO2 enhanced oil recovery project (see map below).

Pursuant to the PSA, Elk will acquire a ~14% non-operating working interest in the Madden Gas Field and the Lost Cabin Gas Plant and associated gas gathering pipeline systems. The Madden Gas Field and the Lost Cabin Gas Plant is operated by Conoco Phillips (46%) and the balance of the unit and gas plant is owned by Moncrief Oil (30%) and various other private interest holders. The purchase of Freeport McMoRan interest in the Madden Gas Field and the Lost Cabin Gas Plant is not subject to any pre-emptive rights and the PSA is subject to completion of additional due diligence for title, environmental and other customary matters. The acquisition is scheduled to be completed by 22 February 2017 with an effective date 1 January 2017.

Discovered in 1968, the Madden Gas Field is a giant, conventional gas field located in the Wind River Basin and one of the largest gas fields in Wyoming. In energy terms, the State of Wyoming is the U.S.'s 4th largest natural gas producer and 8th largest crude oil producer. The field sits on the Madden Anticline and covers an area of over 200 sq. miles/518 km2/128,000 acres. The field produces from multiple reservoir units ranging in depth from 5,000 to 25,000 feet (1500 meters to 7600 meters). With an estimated original gas in place of over 5.5 TCF, to date the Madden Gas Field has produced over 2.42 TCF of natural gas.

According to the U.S. Department of Energy's, Energy Information Administration, the Madden Gas Field is the 33rd largest gas field in the US as ranked by Proved Reserves (Energy Information Administration's U.S. Crude Oil and Natural Gas Proved Reserves 2015 publication).

Production from the Madden Gas Field is transported through an extensive gas gathering system for processing through the dedicated Lost Cabin Gas Plant (LCGP) which includes 3 raw gas processing trains with a total raw gas processing capacity of 310 MMSCF/day. The raw gas stream is comprised of 68% methane and ethane, 20% CO2 and 12% H2S. Currently approximately 240 MMSCF/day of raw gas is processed through the gas plant. By comparison, the Lost Cabin Gas Plant is very similar in capacity to the Moomba Gas Plant in South Australia's Cooper Basin which was designed for 902 mmscf/day (see South Australia Department of State Development - Petroleum Division website) and has current gas processing capacity of 375 TJ per day of with an 80% utilization rate (see Beach Energy ExchangeSA 2016 Listed Company Presentation) which is equivalent to 355 MMSCF/day of gas processing capacity.

Sales gas is delivered from the gas plant into several interstate sales gas transmission pipelines: Lost Creek Pipeline (for delivery to Colorado Interstate Gas, Wyoming Interstate Gas, and Rockies Express) and Mountain Gas Resources Inc. (for delivery to Colorado Interstate Gas). Both CO2 and H2S are also captured and processed for sale. The plant produces 1200-1400 tons per day of sales high grade Sulphur the majority of which is transported by rail to supply the fertilizer market in Tampa, Florida with the remainder transported to a local fertilizer plant located in SW Wyoming.

Since 2013, the Lost Cabin Gas Plant has also been equipped to capture, process and deliver for sale most of the CO2 from the Madden Gas Field raw gas stream. This CO2 is under a long-term supply contract to Denbury Resources. From 2013 to 2016 the CO2 from the Lost Cabin Gas Plant was the principal source of CO2 supply for Denbury's Bell Creek EOR Project located north of the Lost Cabin Gas Plant on the Wyoming-Montana border.

With the Madden Deep Gas Field acquisition, Elk has secured substantial, high quality, long-life reserves that materially increase not only the quantity but the quality of the Company's reserves base. The acquisition delivers approximately 70 BCF (11.6 MMBOE) of Proven (1P) gas reserves of which 65 BCF (10.8 MMBOE) of the gas reserves and all of the natural gas liquids are reserves classified by Netherland Sewell and Associates, Inc. ("NSAI") as Proved Developed Producing and increases Elk's 2P oil and gas reserves by 250% to approximately 18 MMBOE up from 5.2 MMBOE attributable to the Grieve CO2 EOR Project.

Singleton CO2 EOR Project/Singleton South Project
Elk (100% - operator)

During the December Quarter, the decision was taken to place the Singleton CO2 EOR Project on care and maintenance following the unsuccessful result from the recompletion and production testing of the Muddy Formation oil bearing interval in the Opis-1P well in the Singleton South Oil Project area. The Company will continue to evaluate the viability of the redevelopment of the Singleton Oil Field through CO2 enhanced oil recovery but is currently minimizing any expenditures on this project.

CORPORATE AND FINANCIAL UPDATE

Benefit Street Partners Grieve Term Loan

During the Quarter Elk continued to manage its Grieve CO2 EOR Project working interest and associated US$58m debt facility with Benefit Street Partners (the "Grieve Term Loan") and the associated oil price hedging program.

During the Quarter US$13m was drawn from the Grieve Term Loan to finance Grieve CO2 EOR Project construction under Elk's revised unit operating agreement with Denbury Resources and to finance remedial works on Elk's 100% owned Grieve Oil Pipeline.

A total US$43.5m had been drawn from the Grieve Term Loan at the end of the Quarter. The US$58m loan facility is forecast to be fully drawn by September 2017. The US dollar debt service reserve account controlled by Grieve Term Loan Lenders had a balance at 31 December of $14.2m.

Forecast oil production from the Grieve CO2 EOR Project is due to commence in late calendar year 2017 during the project commissioning period, and will ramp up to full production following commissioning. Forecast production revenue from the Grieve CO2 EOR Project will be applied to servicing the Grieve Term Loan interest payments and funding corporate working capital.

To provide certainty around the expected oil price to be received once the Grieve Project commences production and the expected cash flows from oil production, the Company has implemented an oil price hedging program in conjunction with the Grieve Term Loan. The Company has built this hedging program through the use of purchased oil price puts options at US$45/bbl for 75% of its share of forecast oil production from the Grieve Project during calendar year 2018 and 2019. These put contracts provide the Company with a US$45/bbl floor price for the hedged volumes without capping the oil price the company may actually receive if oil prices are higher than US$45/bbl.

Funding Arrangements for Madden Deep Gas Project and Lost Cabin Gas Plant

As outlined above, on 4 January 2017 after the end of the Quarter, Elk announced that it had entered into a purchase and sale agreement with Freeport-McMoRan Inc. to acquire all of their interest in the Madden Gas Field, the Madden Deep Unit Gas Field and the Lost Cabin Gas Plant (the "Madden Deep Gas Project"), for US$20m. Pursuant to these purchase arrangements, Elk will acquire a ~14% non-operating working interest in the Madden Gas Field and the Lost Cabin Gas Plant and associated gas gathering pipeline systems. Acquisition completion is scheduled for 22 February 2017 with an effective date 1 January 2017.

On completion, the Madden Deep Gas Project will realise immediate positive net operating cash flow to Elk of an estimated $2.3 million during the March Quarter (based on current US Natural Gas price consensus forecasts and AUD/ USD exchange rate). On 23 January 2017, the U.S. Government Energy Information Administration ("EIA") released its Short- Term Energy Outlook and has forecast that U.S. Henry Hub natural gas spot prices will average US$3.55/MMbtu in 2017 and US$3.73/ MMbtu in 2018. In the Short-Term Energy Outlook, the EIA highlighted that for 2016 the Henry Hub natural gas spot price averaged US$2.51/MMbtu - the lowest annual average Henry Hub natural gas price since 1999.

Elk is currently working with financiers to finalise debt financing of the Madden Deep Gas Project, and anticipates accessing additional debt capacity under the existing Benefit Street Partner's Grieve Term Loan which was put in place to fund the Grieve CO2 EOR Project development.

As previously outlined by the Company and most recently contained in the Company's November 2016 Annual General Meeting Presentation a key focus for the Company is the acquisition of high quality, long-life reserve, low risk production assets with positive cash flow that also provide a strong strategic fit with the Company's focus on CO2 EOR development and production.

The Company considers that the acquisition of Freeport-McMoRan's interests in the Madden Deep Gas Project will provide a very strong fit with these criteria as well as a strong geographic fit with the Company's current operations in the Northern Rockies and the Grieve CO2 EOR Project which is located in the same county in Wyoming and the same geologic basin as the Madden Deep Gas Project. Elk's acquisition announcement dated 4th January 2017, and to Elk's corporate presentation dated 18th January 2017 provide further discussion and analysis of the economics of the Madden Deep Gas Project and strategic rationale for the acquisition.

Cash Position

Elk's net cash flow from operating activities during the Quarter was $20.7 million, with cash on deposit at the end of the Quarter of $15.3 million. Of this cash, $14.2 million on deposit in a debt service reserve account is dedicated to the completion of the Grieve Project under the Grieve Term Loan. Elk's estimated cash outflows for the next Quarter of $31.1 million (including the US$20 million acquisition of a working interest in the Madden Deep Gas Project) will be funded from acquisition financing, existing cash and positive cash flow following completion of acquisition of a working interest in the Madden Deep Gas Project.

Corporate

During the Quarter Mr Matt Healy resigned from the Office of Director of the Company. Elk's Company Annual General Meeting was held on 28 November 2016. All resolutions proposed at the AGM were passed without resort to polling. An amended Constitution was approved at the 28 November AGM and published to the ASX on 28 November 2016.

Elk's refreshed corporate branding was introduced to shareholders at the AGM.
To view full Quarterly Report including tables and figures, please visit:
http://abnnewswire.net/lnk/RK54AB35

About Elk Petroleum Limited

Elk Petroleum Limited (ASX:ELK) (OTCMKTS:EKPTF) 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. 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.

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