

## ASX Announcement / Media Release

12 July 2017

### US\$5.5m final payment completed for Madden/Lost Cabin acquisition

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- Elk has made the final US\$5.5 million acquisition payment to Freeport-McMoRan
  - Madden/Lost Cabin current production is 25.4 MMCFD/day (4,240 BOEPD) net to Elk
  - US\$6m credit facility now in place with Oklahoma based CrossFirst Bank
  - 80% of next 12 months forecast Madden PDP gas sales hedged with Henry Hub gas price swaps
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### Madden Final Payment US\$5.5m completed

Elk Petroleum Ltd (ASX: ELK) ("Elk" or the "Company") is pleased to advise that it has made the final US\$5.5m milestone payment of a total acquisition price of US\$17.5m to acquire a ~14% working interest in the Madden Gas Field, the Madden Deep Unit Gas Field and the Lost Cabin Gas Plant ("Madden") in Wyoming, USA from subsidiaries of Freeport-McMoRan Inc. ("FCX"). Elk has no further payment obligations to Freeport-McMoRan in relation to its Madden interest.

### Credit facility and gas price hedging in place

Elk has entered into a US\$6m credit facility with Oklahoma based CrossFirst Bank to finance the final milestone payment. The facility has an annual interest rate of US Prime Rate plus 2%, with a 3-year straight line amortization requirement. Elk has implemented gas price hedging for 80% of next twelve months (August 2017-July 2018) forecast Madden PDP production at an average price of US\$2.93/MMbtu, and 40% of August 2018-July 2019 forecast PDP production at an average price of US\$2.82/MMbtu. Elk is pleased to commence a relationship with CrossFirst Bank and expects that this facility will underpin a more comprehensive lending relationship in the future.

### Long-life Reserves

NSAI has independently audited Madden Deep Gas Field reserves at 1 January 2017 of 71.3 BCF (11.9 MMBOE) Proven (1P) gas reserves and 91.3 BCF (15.2 MMBOE) Proved & Probable (2P) gas reserves as detailed in the table below.

### Summary of Madden Deep Gas Reserves\*^

As of 1 January 2017

Reserve Category	Elk Net (BCF)
<b>Madden Proved (1P)</b>	79.5
Proved Developed Producing	71.3
Proved Developed Non-Producing	8.2
<b>Madden Proved + Probable (2P)</b>	91.3
<b>Madden Proved + Probable + Possible (3P)</b>	103

\*Madden Reserves independently audited by Netherland Sewell & Associates, Inc as of 1 January 2017

^Basis of preparation detailed on last page of this document

## Long-Term Profitable Production

Elk's share of Madden production at 30 June 2017 was 25.4 MMCFD/day (4,240 BOEPD). The next five years Madden forecast average gross production (to June 2022) is 206 MMCF/day (34,400 BOEPD), and based on Proved Developed Producing reserves is forecast to generate positive net operating cash flow of approximately US\$6 million per annum to the Company based on consensus gas price forecasts. The table below sets out the historical operating results for Madden for calendar years 2015 and 2016, and 2017 year to date (January – May 2017):

### Madden Gas Field Elk Net Gas Production, Sales & Cash Flow

	2015	2016	2017 YTD*
Daily Avg Gas sales (MMCFD)	21.95	20.2	22.83
Annual Gas sales (BCF)	8.0	7.4	3.4
Avg NYMEX Gas Price (\$/MMBTU)	\$2.66	\$2.46	\$3.03
Avg Realized Gas Price (\$/MMBTU) (after deducting differential)	\$2.44	\$2.24	\$2.81
Total Revenue (\$million)	\$21.9	\$16.6	\$7.9
Total Production Expenses (\$million)	\$12.9	\$11.2	\$5.8
Production Expense (\$/MCF)	\$1.61	\$1.51	\$1.69
Total CAPEX (\$million)	\$1.1	\$0.5	\$0.6
Total Cash Margin (\$million) (Revenue less Total Production Expense)	\$8.9	\$4.1	\$2.0
Cash Margin (\$/MCF)	\$1.11	\$0.56	\$0.59
Total Operating Cash Flow (\$million) (Cash Margin less Total CAPEX)	\$7.8	\$3.6	\$1.4
Operating Cash Flow (\$/MCF)	\$0.97	\$0.49	\$0.42

\*YTD Month End May 2017 (includes sales, costs and production from 1 January 2017)

Lost Cabin Gas and CO<sub>2</sub> production facility, Lysite, Wyoming, USA



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### **ABOUT ELK PETROLEUM**

Elk Petroleum Limited (ASX: ELK) is an oil and gas company specialising in Enhanced Oil Recovery (EOR), with assets located in one of the richest onshore oil regions of the USA, the Rocky Mountains. 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.

### **COMPETENT PERSONS STATEMENT**

The reserves and resources assessment follows the guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS).

The Reserves and Contingent Resources in this announcement relating to the Madden Gas Field and Madden Deep Unit to be acquired from Freeport-McMoRan Inc. is based on an independent review and audit conducted by Netherland, Sewell & Associates, 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. Shane M. Howell and Mr. John R. Cliver, both Vice Presidents of Netherland, Sewell & Associates, Inc., an independent petroleum advisory firm. Mr. Howell is a Registered Professional Geologist in the State of Texas and Mr. Cliver is a Registered Professional Engineer in the State of Texas. Mr. Howell's qualifications include Master of Science in Geological Sciences, San Diego State University and a Bachelor of Science in Geological Sciences, San Diego State University. Mr. Howell has more than 10 years of relevant experience. Mr. Cliver's qualifications include a Masters of Business Administration from the University of Texas, Austin and a Bachelor of Science in Chemical Engineering from Rice University. Mr. Cliver has more than 10 years of relevant experience. Mr. Howell and Mr. Cliver meet the requirements of Qualified Petroleum Reserve and Resource Evaluator as defined in Chapter 19 of the ASX Listing Rules.

The Reserves and Contingent Resources in this announcement relating to the Grieve CO<sub>2</sub> 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.

The information in this ASX release or presentation that relates to Reserve and Contingent Resources estimates for the Grieve CO<sub>2</sub> EOR project and the Reserve and Contingent Resource estimates for the newly acquired Madden Deep Gas Field and the Madden Deep Unit Singleton CO<sub>2</sub> EOR project have been compiled and prepared by Mr. David Evans, COO and Mr. Brian Dolan, COO-USA and VP-Engineering of Elk Petroleum Inc. who are both qualified persons as defined under the ASX Listing Rule 5.11 and both have consented to the use of the reserves figures in the form and context in which they appear in this presentation.

Mr. Evans is a full-time employee of the company. Mr. Evans earned a Bachelor of Science with Honours in Geology from the University of London, United Kingdom, a Post Graduate Diploma, Petroleum Exploration from Oxford Brookes University, United Kingdom and a Master of Applied Science, Geology from the University of Canberra and Australian National University in Canberra, ACT. Mr. Evans has more than 30 years of relevant experience. Mr. Evans 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. Evans consents to the inclusion in this presentation of the matters based on the information in the form and context in which it appears.

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. Mr. Dolan has more than 24 years of relevant experience. Mr. Dolan has sufficient experience that is relevant to the company's Reserves and Resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr. Dolan consents to the inclusion in this presentation of the matters based on the information in the form and context in which it appears.

## **^Elk Petroleum Limited, Madden/Lost Cabin oil and gas Reserves**

The independent Reserves and Resources assessment detailed herein follows the guidelines set forth by the Society of Petroleum Engineers – Petroleum Resource Management System (SPE-PRMS) and the reviews and audits by Netherland Sewell and Associates Inc. (“NSAI”) and VSO Petroleum Consultants, Inc (“VSO”) were carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines.

The NSAI independent Reserve audits were prepared on a deterministic basis in accordance with U.S. Securities and Exchange Commission guidelines and standards consistent with existing U.S. oil and gas Reserve auditing and reporting standards and practice.

With respect to the Madden Gas Field estimates of Sales Gas Reserves reflected in this announcement, these Reserves estimates are of commercial Sales gas quantities net to Elk Petroleum Limited as measured at the outlet of the Lost Cabin Gas Plant into several interstate open access sales gas pipelines connected to the Lost Cabin Gas Plant and through which the Madden Gas Field has been selling gas production processed and the Madden Joint Venture-owned Lost Cabin Gas Plant since 1995.

The Madden Gas Field Reserves as estimated by NSAI were based on field production performance and reservoir pressure data available at the time of assessment provided by the operator, ConocoPhillips which has indicated that the overall field performance is higher than previously estimated and the actual production and field pressure decline rates is much lower than previously estimated.

The economic basis for this evaluation is based on NSAI’s independent assessment of forward gas prices. The Sales gas prices used by NSAI in preparing the Madden Gas Field Reserve estimates are based on the NYMEX Henry Hub prices and are adjusted for energy content, transportation fees and market differentials applicable to the Madden Gas Field gas sales historically and are based on the NYMEX Henry Hub prices before adjustment as follows:

NTMEX Henry Hub Gas Prices	
Period Ending	Gas Price (\$/MCF)
12-31-2017	3.117
12-31-2018	3.009
12-31-2019	2.876
12-31-2020	2.860
Thereafter	2.860

Operating costs used in the NSAI Reserve estimates are based on operating expense records for the Madden Gas Field provided by the operator to Freeport McMoRan and in turn provided to Elk Petroleum Limited. These costs include the per-well overhead expenses allowed under joint operating agreements along with estimates of costs to be incurred at and below the district and field levels.