

THREE ASSETS, THREE ISSUES. FUNDING ISSUES APPARENT

Investment Highlights

- **Asset diversification normally means if one isn't performing well, the others will make up for it, so it is disappointing that all of ELK's assets have experienced issues at the same time. We highlighted in our initiation report that small oil and gas companies carrying debt can be an issue, and here at Grieve, we see an example of just why this is the case. Buy maintained on valuation, but negative sentiment will likely weigh on the stock until funding issues are addressed.**
- **Grieve production builds but not fast enough to outrun funding requirements.** Grieve production has doubled in the last two months to over 200 bopd. Yes, it is increasing but not quick enough to address near term funding requirements of US\$18m which includes P&I payments on the Grieve loan, operating costs and amortisation payments. The outstanding principal amount of the Grieve Field Development Loan is approximately US\$54m (before amortisation payments scheduled for February and April 2019), and the loan matures in August 2019. We see little option but to address the funding issue via additional equity.
- **Aneth cold weather impacts production.** Oil production at Aneth averaged 9,942 bopd (gross) in the December quarter, and has averaged 9,394 bopd for January to date. Unusually low temperatures are the cause of the lower production and it is continuing to affect production. Offsetting this negative news (somewhat), the Well Deepenings undertaken in the September quarter are delivering positive results, with 381 bopd of gross incremental production attributed to the Deepenings Project.
- **Madden Train 3 fire shuts in 2/3 of production.** In late December a fire occurred at the Madden Train 3 processing plant. Train 3 accounts for approx. 115 mmscf/d of the total processing capacity of 150 mmscf/d. Operator ConocoPhillips has advised that at least nine months will be required to restore Train 3 production and estimates the cost of repairs at US\$50m (gross). ELK is covered by insurance for the repairs, but not the negative sentiment it will bring to ELK's share price. Our forecasts have been adjusted accordingly.
- **Valuation: \$0.09/share (prior: \$0.14/share).** Our ELK valuation is based on a discounted cash flow analysis of ELK's interest in the Madden gas field and associated gas plant plus its interest in the Aneth oil field. We have reduced the Grieve Project valuation risk weighting to 40% (prior: 75%) due to the uncertainty around production, and financing.

| Year End June 30 | 2017A | 2018F | 2019F | 2020F | 2021F |
|------------------------|--------|-------|-------|-------|-------|
| Reported NPAT (US\$m) | (8.1) | 10.0 | 11.7 | 13.8 | 23.4 |
| Recurrent NPAT (US\$m) | (8.3) | 10.0 | 11.7 | 13.8 | 23.4 |
| Recurrent EPS (cents) | (1.0) | 0.6 | 0.7 | 0.9 | 1.4 |
| EPS Growth (%) | na | na | 17.0 | 18.1 | 69.5 |
| PER (x) | (3.9) | 6.2 | 5.3 | 4.5 | 2.6 |
| EBITDA (US\$m) | (5.9) | 31.2 | 58.9 | 66.0 | 79.9 |
| EV/EBITDA (x) | (15.2) | 7.1 | 3.7 | 3.3 | 2.5 |
| Free Cashflow | (41.2) | (7.4) | 2.1 | 3.0 | 19.8 |
| FCFPS (cents) | (4.8) | (0.5) | 0.1 | 0.2 | 1.2 |
| PFCF (x) | (0.8) | (8.3) | 28.7 | 20.2 | 3.1 |
| DPS (cents) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

23 January 2019

| 12mth Rating | BUY |
|--------------------|----------|
| Price | A\$ 0.04 |
| Target Price | A\$ 0.09 |
| 12mth Total Return | % 129.1 |

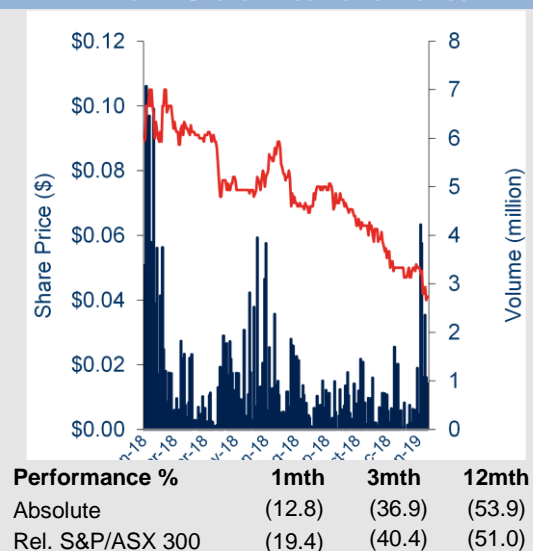
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|--------------------|---------------|
| RIC: ELK.AX | BBG: ELK AU |
| Shares o/s | m 1626.5 |
| Free Float | % 88.42 |
| Market Cap. | A\$m 61.8 |
| Net Debt (Cash) | A\$m 159.7 |
| Net Debt/Equity | % -356.2 |
| 3mth Av. D. T'over | A\$m 0.029 |
| 52wk High/Low | A\$ 0.11/0.04 |
| 2yr adj. beta | 0.91 |

Valuation:

| | |
|-----------------|----------|
| Methodology | DCF |
| Value per share | A\$ 0.09 |

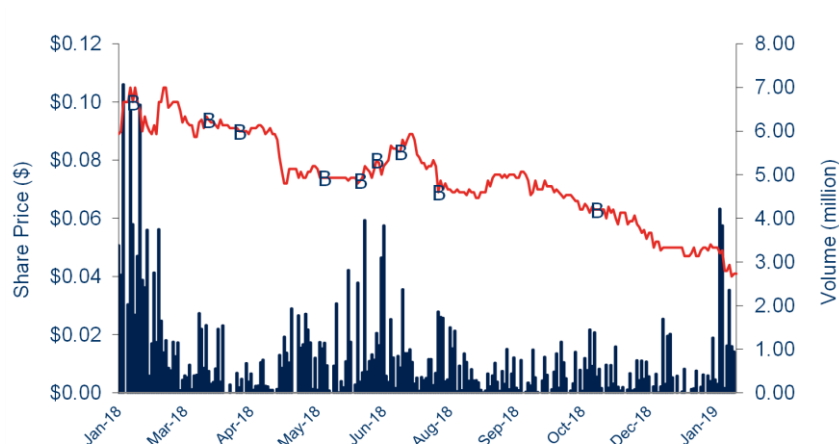
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12 Month Share Price Performance



| Elk Petroleum | | | Price | \$0.04 | Year End 31 December | | | | | | |
|--|--|-------------------------------------|------------|--------|-------------------------------|-------------------------------|---------|---------|---------|---------|--------|
| Valuation | | | \$m | \$/sh | Commodity Assumptions | | 2018F | 2019F | 2020F | 2021F | |
| Grieve CO2 EOR Project, risked at 50% | | | 46 | 0.03 | A\$/US\$ | | 0.77 | 0.72 | 0.72 | 0.72 | |
| Madden Gas Field | | | 47 | 0.03 | WTI oil (US\$/bbl) | | 67.32 | 64.00 | 63.00 | 63.00 | |
| Aneth Oil Field and EOR Project | | | 281 | 0.17 | Henry Hub gas price (US\$mcf) | | 3.23 | 2.78 | 2.66 | 2.60 | |
| Net Cash (Debt) | | | (159) | -0.10 | | | | | | | |
| Corporate Costs | | | (73) | -0.05 | Production Summary | | 2018F | 2019F | 2020F | 2021F | |
| Total Valuation (10% discount rate) | | | 141 | 0.09 | Oil (mmbbl) | | | | | | |
| | | | | | Grieve | | 0.0 | 0.3 | 0.4 | 0.4 | |
| Share Price Target | | | | 0.09 | Aneth | | 1.0 | 2.0 | 2.0 | 2.5 | |
| | | | | | Gas (Bcf) | | | | | | |
| | | | | | Madden | | 3.4 | 3.3 | 7.2 | 6.6 | |
| | | | | | Total production (mmboe) | | 1.5 | 2.8 | 3.6 | 3.9 | |
| Reserves & Resources | | | | | | | | | | | |
| Proven Reserves (1P) | | | Bcf | mmbbl | mmboe | Profit & Loss (US\$m) | | 2018F | 2019F | 2020F | 2021F |
| Madden Gas Field | | | 68 | | 10.8 | Total revenue | | 70.9 | 140.4 | 157.5 | 177.5 |
| Aneth Oil Field | | | | 36.4 | 36.4 | Operating costs | | (27.9) | (58.0) | (68.0) | (74.1) |
| Total 1P Reserves | | | 68 | 36.4 | 47.2 | Exploration expensed | | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | Corporate & admin | | (5.8) | (11.5) | (11.5) | (11.5) |
| Proven & Probable Reserves (2P) | | | | | | Other expenses | | (6.0) | (12.0) | (12.0) | (12.0) |
| Madden Gas Field | | | 91.3 | | 14.5 | EBITDA | | 31.2 | 58.9 | 66.0 | 79.9 |
| Grieve EOR Project | | | | 5.2 | 5.2 | DD&A | | (6.4) | (17.3) | (21.3) | (25.8) |
| Aneth Oil Field | | | | 45.5 | 45.5 | EBIT | | 24.8 | 41.6 | 44.7 | 54.1 |
| Total 2P Reserves | | | 91.3 | 5.2 | 65.2 | Net interest income (expense) | | (14.8) | (29.9) | (28.7) | (26.2) |
| | | | | | | Tax expense | | | | | |
| Proven, Probable & Possible Reserves (3P) | | | | | | NPAT (underlying) | | 10.0 | 11.7 | 13.8 | 23.4 |
| Madden Gas Field | | | 103.0 | | 16.4 | Diluted EPS (cps) | | 0.6 | 0.7 | 0.9 | 1.4 |
| Grieve EOR Project | | | | 7.0 | 7.0 | DPS (cps) | | 0.0 | 0.0 | 0.0 | 0.0 |
| Total 3P Reserves | | | 103.0 | 7.0 | 23.4 | | | | | | |
| Ratios | | 2018F | 2019F | 2020F | 2021F | Cash Flow (US\$m) | | 2018F | 2019F | 2020F | 2021F |
| P/E (x) | | 6.2 | 5.3 | 4.5 | 2.6 | NPAT (underlying) | | 10.0 | 11.7 | 13.8 | 23.4 |
| Enterprise Value | | 221.1 | 219.0 | 216.0 | 196.2 | + Interest Expense | | 15.0 | 30.2 | 28.9 | 26.3 |
| EV/EBITDAX (x) | | 7.1 | 3.7 | 3.3 | 2.5 | - Interest Income | | (0.1) | (0.3) | (0.2) | (0.1) |
| EV/Op. Free Cash Flow | | -29.8 | 102.2 | 71.1 | 9.9 | + Exploration Expensed | | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/2P (\$/boe) | | 3.4 | 3.4 | 3.3 | 3.0 | + Tax | | 0.0 | 0.0 | 2.2 | 4.5 |
| PFCF (x) | | -8.3 | 28.7 | 20.2 | 3.1 | + Depreciation & Amortisation | | 6.4 | 17.3 | 21.3 | 25.8 |
| | | | | | | + Other | | (15.1) | (30.6) | (29.1) | (28.7) |
| Div. Yield (%) | | 0.0 | 0.0 | 0.0 | 0.0 | Operating Cash Flow | | 16.3 | 28.8 | 37.2 | 51.4 |
| Franking (%) | | 0.0 | 0.0 | 0.0 | 0.0 | Capital expenditure | | (22.3) | (23.9) | (31.4) | (31.6) |
| | | | | | | Exploration expenditure | | (1.4) | (2.8) | (2.8) | 0.0 |
| Directors & Senior Management | | | | | Free Cash Flow | | | | | | |
| Name | | Position | | | Dividends | | 0.0 | 0.0 | 0.0 | 0.0 | |
| Neale Taylor | | Chairman and Non-Executive Director | | | Equity Raised | | 0.0 | 10.0 | 0.0 | 0.0 | |
| Brad Lingo | | Managing Director & CEO | | | Debt drawn (repaid) | | (10.0) | 0.0 | (25.0) | (20.0) | |
| Russell Krause | | Non-Executive Director | | | Net Change in Cash | | (15.8) | 12.1 | (22.0) | (0.2) | |
| Timothy Hargreaves | | Non-Executive Director | | | Cash at Period End | | 19.2 | 61.3 | 27.7 | 18.2 | |
| Alex Hunter | | Chief Financial Officer | | | Net Cash (Debt) | | (159.7) | (127.5) | (136.1) | (125.7) | |
| David Evans | | Chief Operating Officer | | | | | | | | | |
| | | | | | Balance Sheet (US\$m) | | 2018F | 2019F | 2020F | 2021F | |
| Substantial Shareholders (as at 31 October 2018) | | | | | Cash | | 19.2 | 31.3 | 9.3 | 9.1 | |
| | | | Shares (m) | % | Total Assets | | 315.5 | 337.0 | 328.0 | 333.6 | |
| Republic Investment Management Pty Ltd | | | 287.2 | 21.4 | Creditors | | 22.0 | 22.0 | 22.0 | 22.0 | |
| LIM Advisors | | | 133.0 | 9.9 | Current Borrowings | | 0.0 | 0.0 | 0.0 | 0.0 | |
| Asian Dragon Acquisitions | | | 101.1 | 7.5 | Non-current Borrowings | | 178.8 | 188.8 | 163.8 | 143.8 | |
| Robert Healy | | | 53.9 | 4.0 | Provisions | | 14.8 | 14.6 | 14.5 | 14.5 | |
| Rich Trend Ventures Limited | | | 47.7 | 3.6 | Total Liabilities | | 360.3 | 370.2 | 347.3 | 329.5 | |
| Total, top 5 shareholders | | | 622.9 | 46.4 | | | | | | | |
| | | | | | Shareholders Funds | | (44.8) | (33.1) | (19.3) | 4.1 | |

Recommendation History



| Date | Type | Target Price | Share Price | Recommendation | Return |
|-----------|-----------------------|--------------|-------------|----------------|--------|
| 30 Nov 17 | Research Note | 0.15 | 0.06 | B | |
| 20 Dec 17 | Hot off the Press | 0.15 | 0.06 | B | 1.7% |
| 31 Jan 18 | Research Note | 0.15 | 0.10 | B | 63.9% |
| 16 Mar 18 | Research Note | 0.14 | 0.09 | B | -10.0% |
| 04 Apr 18 | Resources Review Book | 0.14 | 0.09 | B | 0.0% |
| 24 May 18 | Research Note | 0.14 | 0.07 | B | -22.2% |
| 14 Jun 18 | Hot off the Press | 0.14 | 0.07 | B | 2.9% |
| 25 Jun 18 | Hot off the Press | 0.14 | 0.08 | B | 8.3% |
| 09 Jul 18 | Hot off the Press | 0.14 | 0.08 | B | 5.1% |
| 31 Jul 18 | Research Note | 0.13 | 0.07 | B | -15.9% |
| 31 Jul 18 | Hot off the Press | 0.13 | 0.07 | B | 0.0% |
| 01 Nov 18 | Research Note | 0.14 | 0.06 | B | -13.0% |
| | Current Share Price | | 0.04 | | -31.7% |

Stock recommendations: Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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| | |
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| BUX | Patersons Securities have acted for Buxton Resources Limited (BUX) within the past two years and have received fees for these services. |
| CSS | Patersons Securities have acted for Clean Seas Seafood Limited (CSS) within the past two years and have received fees for these services. |
| GLL | Patersons Securities have acted for Galilee Energy Limited (GLL) within the past two years and have received fees for these services. |
| IBG | Patersons Securities have acted for Ironbark Zinc Limited (IBG) within the past two years and have received fees for these services. |
| NUS | Patersons Securities have acted for Nusantara Resources (NUS) within the past two years and have received fees for these services. |
| PEX | Patersons Securities have acted for Peel Mining Limited (PEX) within the past two years and have received fees for these services. |
| RCL | Patersons Securities have acted for ReadCloud Limited (RCL) within the past two years and have received fees for these services. |
| STN | Patersons Securities have acted for Saturn Metals Limited (STN) within the past two years and have received fees for these services. |
| SYA | Patersons Securities have acted for Sayona Mining Limited (SYA) within the past two years and have received fees for these services. |
| VMY | Patersons Securities have acted for Vimy Resources Limited (VMY) within the past two years and have received fees for these services. |
| WKT | Patersons Securities have acted for Walkabout Resources Ltd (WKT) within the past two years and have received fees for these services. |
| XTE | Patersons Securities have acted for Xtek Limited (XTE) within the past two years and have received fees for these services. |



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