



OIL RESERVES DETERMINED AT 18.6 MMBLS FOR TERTIARY RECOVERY AT GRIEVE

HIGHLIGHTS

- Ryder Scott has provided an independent reserve certification of 18.6 million barrels of “Possible” (3P) reserves for the proposed tertiary oil recovery program at the Grieve field in Wyoming.
- Ryder Scott has valued the tertiary oil recovery project at USD\$305 million (unrisked NPV 10 base case).
- This study has relied upon a new detailed reservoir study conducted by Nitec LLC to conduct an economic feasibility study of the proposed tertiary oil recovery program.
- In addition, the study provides a clear pathway for the future conversion of these reserves to the “Proven” category.

SUMMARY

Elk Petroleum commissioned Ryder Scott (Denver) to arrive at a reserve determination which also involved a detailed evaluation of the economic potential of the proposed tertiary oil recovery program for the Grieve Field (Wyoming). This program will entail injecting carbon dioxide (CO₂) into the Muddy Reservoir within the Grieve field to re-pressurise the reservoir and extract incremental oil.

The Chairman of the Company, Dr Peter Power said “We are very pleased with the outcome of these studies and the Ryder Scott reserves report. This report was a key requirement to progress negotiations for CO₂ with our potential joint venture partners and the receipt of this report is a major step forward for this project. There are numerous enhanced oil recovery projects currently underway in the US and two independent studies have now confirmed our view of the exciting oil recovery potential at the Grieve field. This project is a win-win situation. We are recovering incremental oil in a cost efficient manner and sequestering approximately 9.5 million tonnes of CO₂ which would otherwise be vented into the atmosphere.”

RESERVOIR STUDIES

Ryder Scott requested that certain aspects of the study conducted by the Enhanced Oil Recovery Institute (EORI) at the University of Wyoming in 2007 be reviewed further to enable them to provide a reserve assessment and an opinion on the production potential of the Grieve Muddy reservoir from a carbon dioxide (CO₂) flood. Nitec LLC (Denver), a specialised reservoir engineering consulting firm was engaged to develop an independent reservoir model of the Grieve Muddy reservoir. This study came to similar results to the EORI study of the proposed tertiary recovery program at Grieve. The history match conducted by Nitec was in greater detail than the EORI approach and was carried out well by well, compared with the field wide history match of the EORI study. Nitec evaluated a number of development options for the field in terms of CO₂ quantities, location and types of injection and producing wells, the benefits of simultaneous water injection, etc.

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The following table compares two forecast production results from the similar EORI and Nitec simulations:

Initial CO ₂ Injection Rate	EORI MMBbls*	Nitec MMBbls*
110 MMSCFD**	23.2	21.0
50 MMSCFD**	19.8	18.9

* MMBbls=million barrels

** MMSCFD=million standard cubic feet per day

There was good agreement between the two models which were developed independently and used different approaches to the forecasting simulation. The close correlation between the results has permitted a reasonable level of confidence by Ryder Scott to use the studies to arrive at its reserve determination.

Ryder Scott indicated that elevation of the reserve classification to the "Probable" (2P) category per the SPE Reserves Definitions would require a successful pilot. Ryder Scott then went on to observe that conducting a pilot on a de-pressured reservoir is impractical and therefore reclassification to "probable" (2P) by this route is also impractical. Ryder Scott indicated an up-grade of the reserve classification to "Proven" (1P) is expected when full-scale CO₂ flooding has been implemented and production responses achieved.

ECONOMIC EVALUATION

The Ryder Scott report also included an extensive economic evaluation. This evaluation provided a base case valuation of the project of USD \$305m (unrisked NPV 10). This valuation assumed an oil price of US \$85 per barrel and no CO₂ sequestration benefits or resale after use. Ryder Scott found the project to have very robust economics.

DEVELOPMENT PLANS

Elk has made considerable progress in negotiations with potential CO₂ suppliers and is well advanced in discussions to acquire and transport the required CO₂. There continues to be considerable political pressure within the State of Wyoming for CO₂ currently vented, to be utilised in tertiary oil recovery projects.

REVISED RESERVE POSITION

The Company's current certified reserve position is as follows:

Certification	Previous	Revised
1P	590,000 barrels	590,000 barrels
2P	920,000 barrels	920,000 barrels
3P	948,000 barrels	19,548,000 barrels

INDEPENDENT RESERVE ASSESSMENT

Reserves for tertiary oil recovery within the Muddy Reservoir at Grieve have been determined by Ryder Scott (Denver) and have been prepared in accordance with the current standards of the Society of Petroleum Engineers (SPE) Reserves Management System. Ryder Scott has consented to the release of this announcement.

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