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29 April 2011

The Manager, Companies  
Australian Securities Exchange Ltd  
Electronic Announcements Platform

Elk Petroleum Limited (ASX code: ELK)  
Announcement to the ASX

**Quarterly Newsletter and Cashflow Report**

Following is the Company's shareholder newsletter for March 2011 together with the Appendix 5B for the quarter.

The newsletter will be mailed to ELK shareholders shortly.

Regards,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Jo Bourke  
Company Secretary



Top image: CO<sub>2</sub> Pipeline Route; Bottom image: Young Elk in Spring

## HIGHLIGHTS

- An agreement was signed with ExxonMobil for the supply of CO<sub>2</sub> for the Grieve enhanced oil recovery (EOR) project
- An agreement was signed with Anadarko for the transportation of CO<sub>2</sub> through Anadarko's existing CO<sub>2</sub> pipeline from the ExxonMobil supply point to Elk's off-take point near the Grieve field (a distance of about 50 miles)
- Acquisition of a pipeline and pipeline right of way (ROW) to allow a new 3 mile CO<sub>2</sub> supply pipeline to be constructed in order to link Anadarko's CO<sub>2</sub> pipeline to the Grieve field
- Commencement of the environmental assessment for the Grieve EOR project; a memorandum of understanding (MOU) was signed with the Bureau of Land Management (BLM), which is the governing body for approval of the project
- Negotiations for the sourcing of debt and/or equity funds or a joint venture for the Grieve EOR project are well advanced
- Production and water injection at the Ash Creek oil field commenced
- Compilation of data for input to an Ash Creek Shannon reservoir model has commenced together with the first phase of laboratory studies of chemical flooding of Ash Creek
- Preparatory title and planning work is underway prior to seeking a farmin partner to join Elk in drilling a horizontal appraisal well for fracturing oil-bearing sections of the Niobrara Formation at the Grieve field

## GRIEVE FIELD EOR PROJECT

A number of constructive steps have been taken to implement the EOR project of the Grieve Muddy formation using carbon dioxide (CO<sub>2</sub>) flooding technology.

- The first critical step was to establish a secure source of CO<sub>2</sub> and this has been achieved by entering into an agreement with ExxonMobil to purchase 150 billion cubic feet (BCF) of CO<sub>2</sub> from their Shute Creek gas plant in south west Wyoming. The CO<sub>2</sub> will be delivered to the end of ExxonMobil's CO<sub>2</sub> pipeline at Bairoil approximately 50 miles southwest of the Grieve field.
- The second step was to be able to transport the contracted volumes of CO<sub>2</sub> from ExxonMobil's supply site to the Grieve field. The first part of this step was achieved by the execution of a transportation agreement with Howell Petroleum Corporation (Anadarko) to transport the CO<sub>2</sub> in the existing Anadarko CO<sub>2</sub> pipeline approximately 50 miles from Bairoil to a point very close to the Grieve Field.
- The second part of transporting CO<sub>2</sub> to the Grieve field involves the installation of a new pipeline from the Anadarko pipeline approximately 3 miles to the Grieve field. This will be achieved by constructing the pipeline in a pipeline ROW acquired by Elk when it purchased a "moth-balled" crude pipeline which has access to the Grieve field and also crosses the Anadarko CO<sub>2</sub> pipeline.
- Elk has also acquired an oil delivery pipeline that will transport oil from the Grieve EOR project approximately 32 miles to a point of sale near Casper.

The final step yet to be achieved to ensure the Grieve EOR project will be undertaken and injection of CO<sub>2</sub> commences in the first half of 2012, is to establish funding for the main development project. Negotiations are well advanced to complete this final step.

All the necessary steps to keep the project on schedule are being taken which include:

- the survey and design of the new CO<sub>2</sub> branch line
- planning of the connection to the Anadarko CO<sub>2</sub> pipeline
- the environmental assessment of the project and liaison with the BLM for their endorsement of the project

- applications to re-enter temporarily abandoned wells and to seek approval for them to be used as CO<sub>2</sub> injection wells
- application to replace existing field gas gathering system with new CO<sub>2</sub> field distribution system
- applications to drill new CO<sub>2</sub> injection wells
- the study of a new power supply line route to the field
- applications to replace existing field piping with new CO<sub>2</sub> distribution piping

The project will involve significant new process equipment. A photo of similar separation, dehydration and compression facilities at Anadarko's Salt Creek EOR project is shown below.

The Grieve EOR project is on schedule and Elk expects to be able to report in the near future that the final contractual steps are in place that will ensure the project will be fully implemented and that the current momentum will be maintained.



Salt Creek CO<sub>2</sub> Facilities



## GRIEVE FIELD NIOBRARA APPRAISAL

A joint venture partner is to be sought to participate in a horizontal appraisal well of the Niobrara Formation at the Grieve field. As has been previously reported in Elk announcements, the drilling of the Grieve #39A well in July 2009 revealed promising oil shows whilst drilling through the Niobrara Formation. Consultants Goolsby, Finley & Associates (GFA) were engaged to advise Elk on the viability of the Niobrara Formation at Grieve based on data from the Grieve #39A. GFA is now assisting with design work for and the farm out of a horizontal appraisal well to be drilled to establish the full potential of the Niobrara Formation at Grieve.

The farmout document is currently awaiting the inclusion of a formal title opinion of the Grieve leases and details of the Application or a Permit to Drill (APD) that is to be submitted to the BLM for approval. Both items are expected to be finalised in the near future.

The new appraisal well is expected to be spudded from the well pad for the Grieve #39A well shown in the adjacent photograph.



Grieve #39A well

## ASH CREEK OIL FIELD REDEVELOPMENT

Trusler #1 and Trusler #8 wells were placed on production in February, immediately after power was connected to the field. Produced formation water from the wells is separated and re-injected in adjacent and down dip Trusler #9 well into the lower Shannon Formation to effect a water flood of that formation.

To date, neither of the two producing wells has achieved the oil content that was reported when each was either previously test pumped or swabbed. Historically, when the upper Shannon Formation was water flooded, there was a lag between the start of the water flood at an injection well and the response in terms of improved oil production at an adjacent producing well; this lag was approximately 3 months. It is proposed to continue with the current production configuration for at least another 2 months.

Concurrent with the operations in the field, the Colorado engineering consultant, Surtek, has been engaged to construct reservoir and simulation models of the Ash Creek Shannon Formations; Elk is compiling all geological, other technical and production information for use by Surtek. Samples of the produced oil and water from the Trusler #1 well have been provided for testing and analysis. It is anticipated that a new well will be needed to provide fresh Shannon core material for radial flood testing in Surtek's modern laboratory. When the models are constructed, they will be tested to achieve a performance match of historical production prior to making predictive simulation runs to show the potential levels of increased recovery from chemical flooding of the field. This work is expected to take 3 to 6 months.

## HEREFORD GAS FIELD DEVELOPMENT

Worley Parsons has completed a study to investigate how best to utilize gas from the Hereford gas discovery. The Hereford gas has an inherent low heating value as produced because of its high nitrogen content. Worley Parsons has considered use of the gas for power generation as well as the possibility of piping the gas to a local industrial application or removing the nitrogen to achieve sales gas quality that can be sold into the local natural gas distribution system.

On-site power generation appears economically feasible; the other alternatives appear feasible at increased gas prices. Markets exist to support all options. Elk will conduct further analysis of the study to isolate what it considers the optimum way to develop the 60 BCF Hereford gas resource.



Ash Creek Facilities



Hereford



## CORPORATE SECTION

### PRODUCTION AND REVENUE

Total production during the March quarter was 892 bbls from Grieve and 558 bbls from Ash Creek. Grieve production was down 7% during the quarter. Ash Creek production commenced in February 2011.

Net revenue for the quarter was A\$79,110 which was 28% higher than last quarter due to the first sale of Ash Creek oil. The average price during the quarter was US\$82.52 which was 18% higher than the prior quarter.

### FINANCIAL POSITION

The closing cash position for the group as at 31 March, 2011 was A\$2,820,218. The average exchange rate for

the period was 1.007 which was 2% higher than the previous quarter.

### Production and Revenue History

Description	Units	2Q 09/10	3Q 09/10	4Q 09/10	1Q 10/11	2Q 10/11	3Q 10/11
<b>Gross Production</b>							
Grieve	Barrels	1,055	1,009	997	1,082	956	892
Sand Draw South	Barrels	14,016	12,741	11,358	10,026	-	-
Ash Creek	Barrels	-	-	-	-	-	558
<b>Total</b>		<b>15,071</b>	<b>13,750</b>	<b>12,355</b>	<b>11,108</b>	<b>956</b>	<b>1,450</b>
<b>Gross Sales</b>							
Grieve	Barrels	1,315	750	1,000	1,020	1,013	950
Sand Draw South	Barrels	14,320	13,007	10,884	10,536	-	-
Ash Creek	Barrels	-	-	-	-	-	233
<b>Total</b>		<b>15,635</b>	<b>13,757</b>	<b>11,884</b>	<b>11,556</b>	<b>1,013</b>	<b>1,183</b>
<b>Net Revenue</b>							
Grieve	A\$	79,615	47,803	70,152	62,128	62,022	61,960
Sand Draw South	A\$	858,115	849,022	660,806	589,430	-	-
Ash Creek	A\$	-	-	-	-	-	17,151
<b>Total</b>		<b>937,730</b>	<b>896,825</b>	<b>730,958</b>	<b>651,558</b>	<b>62,022</b>	<b>79,110</b>
<b>Financials - A\$ ('000)</b>							
Cash & Cash Equivalents	A\$	1,420	1,164	719	856	4,226	2,820
Debt	A\$	213	207	221	286	-	-

For further information please contact;



Bob Cook, Managing Director / Chief Executive Officer

Elk Petroleum Limited is an Australian Securities Exchange-listed oil and gas production, development and exploration company with assets located in the Rocky Mountains, USA. Elk's strategy is to acquire and re-develop mature oil fields in the USA using both conventional and new extraction techniques.

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

ELK PETROLEUM LIMITED

ABN

38 112 566 499

Quarter ended ("current quarter")

31 MARCH 2011

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 mths) \$A'000
1.1 Receipts from product sales and related debtors	45	1,126
1.2 Payments for		
(a) exploration & evaluation - projects		
(b) development		
(c) production	(232)	(1,334)
(d) administration (AUS & USA)	(662)	(2,136)
1.3 Dividends received		
1.4 Interest and other items of a similar nature	5	16
1.5 Interest and other costs of finance paid	(1)	(10)
1.6 Income taxes paid		
1.7 Other – management fees		5
<b>Net Operating Cash Flows</b>	<b>(845)</b>	<b>(2,333)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects		
(b) leases	(6)	(6)
(c) other fixed assets		(242)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) leases		5,536
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (Projects)	(604)	(1,677)
<b>Net investing cash flows</b>	<b>(610)</b>	<b>3,611</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,455)</b>	<b>1,278</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(1,455)	1,278
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		1,217
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings/transfers		304
1.17	Repayment of borrowings/transfers		(503)
1.18	Dividends paid		
1.19	Other – bonding		68
	<b>Net financing cash flows</b>		1,086
	<b>Net increase (decrease) in cash held</b>	(1,455)	2,364
1.20	Cash at beginning of quarter/year to date	4,353	719
1.21	Exchange rate adjustments to item 1.20	(32)	(217)
1.22	<b>Cash at end of quarter</b>	2,866	2,866

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	95k
1.24	Aggregate amount of loans to the parties included in item 1.10	
1.25	Explanation necessary for an understanding of the transactions	
	Non-Executive Directors	36k
	Executive Directors	59k
	<b>Total Payments to Directors</b>	<b>95k</b>

**Non-cash financing and investing activities**

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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+ See chapter 19 for defined terms.



### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities		
3.2 Credit standby arrangements		

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	
4.2 Development/Projects	
4.3 Production	200
4.4 Administration	200
<b>Total</b>	<b>300</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,866	4,353
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>2,866</b>	<b>4,353</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

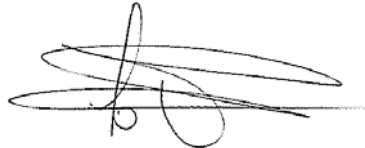
*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter				
7.3 <b>+Ordinary securities</b>	114,901,269	114,901,269		
7.4 Changes during quarter				
7.5 <b>+Convertible debt securities</b>				
7.6 Changes during quarter				
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	500,000	-	60 cents	24 November 2011
	200,000	-	27 cents	5 June 2012
	150,000	-	52 cents	19 June 2013
	200,000	-	37 cents	14 August 2013
	500,000	-	64 cents	17 February 2013
	100,000	-	52 cents	19 June 2013
	200,000	-	23 cents	13 October 2013
	150,000	-	20 cents	24 June 2014
	150,000	-	20 cents	30 June 2015
	200,000	-	20 cents	10 October 2015
	100,000	-	20 cents	24 October 2015
	100,000	-	20 cents	24 October 2015
	100,000	-	20 cents	5 December 2015
	<b>2,650,000</b>			
7.8 Issued during quarter	100,000	-	20 cents	5 December 2015
7.9 Cancelled during quarter				
7.10 Expired				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Company Secretary

Date: 29 April 2011

Print name:

Jo Bourke

## 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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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