

Tuesday 12th October 2010

Sale of Elk's Sand Draw South Oil field for US\$5.5 million Expansion of Elk's Ash Creek oil field re-development program

Elk Petroleum Ltd ("Elk" or the "Company") (ASX code: ELK) has accepted an offer to acquire its 100% working interest in the Sand Draw South oil field for a cash consideration of US \$5.5m. An agreement covering this transaction was executed on Monday 11th October 2010 (US time); this agreement may be subject to regulatory approval. The cash consideration is 95% above the audited carrying value of the asset in Elk's accounts.

This divestment provides Elk with the cash reserves to extinguish its outstanding debt facility as well as provide the financial capability to progress the planned expansion of its Ash Creek project in the Powder River Basin, Wyoming. The Ash Creek project is expected to have far greater upside reserves potential, lower operating costs (field and administrative) per barrel, and higher oil revenues per barrel than the Sand Draw South oil field in the Wind River Basin, Wyoming.

Elk Managing Director and CEO, Andy Rigg, said the Company is confident that increased shareholder value can be achieved from expanding its Ash Creek project. Key factors are:

- **Significant total field potential;** up to 4.8 million barrels of oil is estimated to be recoverable from primary, secondary and tertiary recovery techniques.
- **Low capital expenditure requirements for development;** this is mainly due to the large number of existing wells capable of being re-entered for both production and injection. In addition, given the shallow reservoir depths (around 4400 feet to 4800 feet), new well drilling costs are substantially less than at Sand Draw South or Grieve.
- **The high quality light sweet crude;** attracting a price premium as opposed to the medium sour crude currently produced from Sand Draw South which sells at a discount
- **Opportunities exist for in-fill drilling;** new crestal locations have already been identified to drain oil left behind by a previous inefficient water flood.
- **Encouraging early results from the field;** the extended production testing of the Trusler #1 well produced oil cuts in the range 14-16%, and early swab testing results from the Trusler #8 well indicate oil cuts around 10%. These results can be compared to the average 2% oil cuts being achieved in the 3 current production wells at Sand Draw South.
- **Predicted production rates;** the Company is currently planning on producing at least 30 barrels of oil per day (BOPD) from each Trusler well, it may be possible with large pump capacity to achieve well production rates in excess of 60 BOPD.
- **Time limitations;** the time required to unitise the full field (currently covered by several separate mineral leases) and the onset of north Wyoming winter conditions may limit the near-term re-development program to 3 production wells and 1 injection well, all on the same lease. However, this configuration could provide production around 100 BOPD.

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Mr Rigg added that “This change to our production asset type, the style of operation particularly in the water handling, and geographic location will enable Elk to re-organise and substantially reduce our US office overheads and field manpower, thus significantly reducing our future US administration costs per barrel of production.”

The Company plans to announce further organisation changes at or before the Company's AGM in November.

Meanwhile the Company continues to assess a number of commercialisation options in relation to the Grieve field EOR development.

On behalf of the Board.



Andy Rigg MD/CEO

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