



President's Message

During 2007 and the beginning of 2008 very encouraging progress has been made, from our starting point of the award of the Danish License 02/05 in 2005. Within the context of our exploration strategy, we continued to convert the potential of our group resource assets to maximize our long term shareholder value. This past year has seen strong performance in line with our core objectives to discover, appraise, develop and commercialise our assets for maximum shareholder return. Elko raised a total of US\$20 million in equity during fiscal 2007 and is well positioned to continue to finance its plans.

Denmark

Our license portfolio for the North Sea begins with 80% of License 02/05, located offshore Denmark (20% held by a Danish government entity). Through our Danish subsidiary Arkay A/S Elko operates the largest exploration license in Denmark with an area of 1.3 million acres offshore. This 1.3 million acre field offers P50 un-risked net prospective resources of 1.8 billion barrels oil or 8.4 Tcf of gas (evaluated by Tracs International, an independent reservoir engineer, in May 2008).

During 2007, PGL, a UK-based subsurface consultant, completed their Phase I evaluation report and then we commenced re-processing a number of 2D seismic lines from the field tapes to improve the resolution of the Rotliegendes interval. The re-processing work was completed in October 2007 and has enabled seismic attribute mapping. We are currently finalizing the plans for two additional technical studies to evaluate the migration pathway from the Central Graben and to reduce the risk of the Chalk prospects. An optional drilling commitment has to be firmed up on entering the third exploration period in 2010.

Phase II will be for two and a half years rather than the two originally stipulated as we were unable to secure delivery of certain data within the first period. This will not alter the overall exploration period of six years however and our plans remain to farm out part of our 80% interest before moving ahead with drilling the first exploratory well, which is projected to cost approximately \$25 million.

Netherlands

The mix of appraisal and near-term development type projects offered by the Dutch assets balances the higher risk exploration ventures in the Danish sector. The Dutch assets comprise a 33% operator working interest in the P1 and adjacent P2 licenses. The geological risk is limited as previous operators had performed 3D seismic and drilled 17 exploration wells that have confirmed the presence of a number of Rotliegendes gas bearing structures. The discoveries were not developed for a variety of reasons, including the prevailing gas price, low well productivity and the carbon dioxide content of the gas. However, these challenges have been eclipsed by today's significantly higher gas price and improved offshore technology. Given surging demand for gas, there is every incentive for Elko to continue to move forward with partners and to exploit the dormant resource in these two licenses. The early part of 2007 was spent in preparing the applications and to support our submission with presentations to the Dutch government, which resulted in Elko being awarded operatorship and the P1 exploration license. Immediately following

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this President's Message that are subject to significant risks and uncertainties. These statements concern Elko's plans, expectations and objectives for future operations of Elko's licenses in the North Sea.



the award of P1 in June 2007, the Company commenced work to review cores, cuttings and logs to improve our understanding of the Rotliegendes reservoirs on the Block. This work was then combined with seismic attribute studies and preparation of a static reservoir model. A significant amount of time has been spent to improve our database by obtaining additional well and seismic data from a number of sources. The reservoir studies were carried out by a number of specialist contractors and management expects a significant upgrade of the reserves of the P1 FA structure which was the focus of this work. The resulting interpretations are now being reviewed in order to prepare a NI 51-101 for our planned IPO.

Block P1 is located on the southern margin of the Southern Permian Gas basin and covers approximately 209 km² (51,623 acres). The Company benefits from seven wells having been drilled by previous operators, of which five encountered gas on three separate structures which are currently under appraisal for development.

Awarded in February 2008, Block P2 is directly adjacent and east of Block P1. Significant new data has been acquired on Block P2 including a previously unavailable 3D survey over the western portion of the block. Interpretation of this data was mixed - the size of the P2 Charlie structure earmarked for early production has been reduced, however management expects that the overall reserves of the Block have been increased significantly with several new structures identified. These numbers are being revised and certified by an independent evaluator.

The award of Blocks P1 and P2 has established Elko as a recognized offshore Operator in The Netherlands in addition to already being Operator in Denmark. As joint licensees with Oyster Energy B.V. (a subsidiary of Horizon Energy Partners B.V.), an invitation to take up a 40% working interest was extended to and accepted by the state oil and gas company, Energie Beheer Nederland B.V. ("EBN"). At the end of 2007, Horizon announced that it would be selling its 100% interest in Oyster which has slowed down the accelerated work program intended to lead to an early production project; a new partner is currently being identified.

Financing and Other Interests

In 2007, Elko also increased its interest in Dragon Energy Inc. to 51%. Dragon is a private Canadian oil and gas exploration company that has a 30.7% working interest in the Kotaneelee gas field in the Yukon and is currently benefiting from strong gas prices in Canada.

In September 2007, the Company secured further financial support from Xtract Energy Plc which increased its equity stake by US\$2 million. And further, in December, the Company undertook a highly successful private placement with Jennings Capital Inc., and Cormark Securities Inc. as joint lead agents, mainly with US and Canadian investors, for an additional US\$12.1 million and Xtract contributed a further US\$6 million to increase their ownership in the Company to 35.4%.



Outlook

The present business environment is characterized by high and rising oil and gas prices, which to some degree is counteracted by high and rising costs and a tight market for personnel and other vital resources. Elko remains confident about its prospects in the North Sea and the Company's ability to execute on its plans.

The development of the very significant gas reserves on our Netherlands blocks, clearly identified through drilling, testing and extensive 3D seismic coverage, remains our highest priority project. We are working on a plan to develop one of the low CO₂ gas discoveries, however, the development of the majority of the gas reserves would require the removal of the associated CO₂ before the sales gas can be transported onshore in the existing pipeline system. Conceptual engineering work has started to design and cost out an early development concept, which is a requirement to define reserves. It will also be desirable to increase production rates on the new wells which we are planning to drill. It is planned to achieve this through the use of modern drilling techniques, i.e. the use of extended horizontal wells steered through the best parts of the reservoirs that have been identified previously through seismic attribute studies.

The Company is committed to drilling at least one well on its Denmark 02/05 License and we believe that with the addition of a partner additional wells could be drilled which would improve the chances of making a discovery. In the Netherlands, although there are technical and commercial issues to be resolved before full scale production can start, the anticipated reserves should provide for a successful resolution of these issues. Prior to drilling the first well, anticipated in 2009, the Company plans to image the proposed structure with a Pre-Stack Depth Migration (PSDM) study which will improve our understanding of the potential resources within the structure.

We believe that the support of both the Dutch and Danish state oil companies, as well as the support of new and existing shareholders during difficult world economic circumstances represents strong recognition of our expertise and the potential of our assets in the North Sea. This also lends support to the key role to be played by junior international oil and gas companies in finding and developing the remaining reserves in countries such as The Netherlands and Denmark. Discovered but undeveloped fields, which were considered to be immaterial by the majors and larger independents, can be highly significant to a focused, motivated and well financed junior international company such as Elko. In addition, work carried out both in the Netherlands and Denmark has demonstrated our ability to identify significant new reserves potential in established areas that have seen significant activity in the past.

The Board of Elko is continuing to work towards an Initial Public Offering and a listing on a recognized stock exchange. The pre-IPO fund-raising completed in December 2007, indicated an intended listing within one year and this remains the objective, however timing will be influenced by market conditions and the completion of technical reports.

We thank you for your support and look forward to meeting you at the Company's upcoming Annual and Special Meeting of Shareholders where we will be providing a presentation of our prospects and forward plans.

Rudolf Kleiber
President and Chief Executive Officer
June 3, 2008