

Preliminary Monthly Report

February 2004

Injection, total fluid production, and monitoring pressures points remain relatively constant with the last two months (see attached graphs). Continuous oil production has not been achieved but there is more frequent sporadic oil production. Measurable oil production was reported 48% of the days in February compared only 26% of the days in January. Oil production in February averaged 1.6 BOPD up from 0.9 BOPD in January.

No gas production has yet been reported. Our original projection indicated measurable gas could be expected in the latter part of March. Normally a significant oil production increase coincides with the arrival of CO₂ at the production wells.

Current injection rates are excessive based on current production rates. Injection withdrawal ratio after compensating for the expected 25-30% loss out of the pilot process area is over 1.4. Losses out of the pilot floodable area are currently over 50% as a result of the injection and production being out of balance.

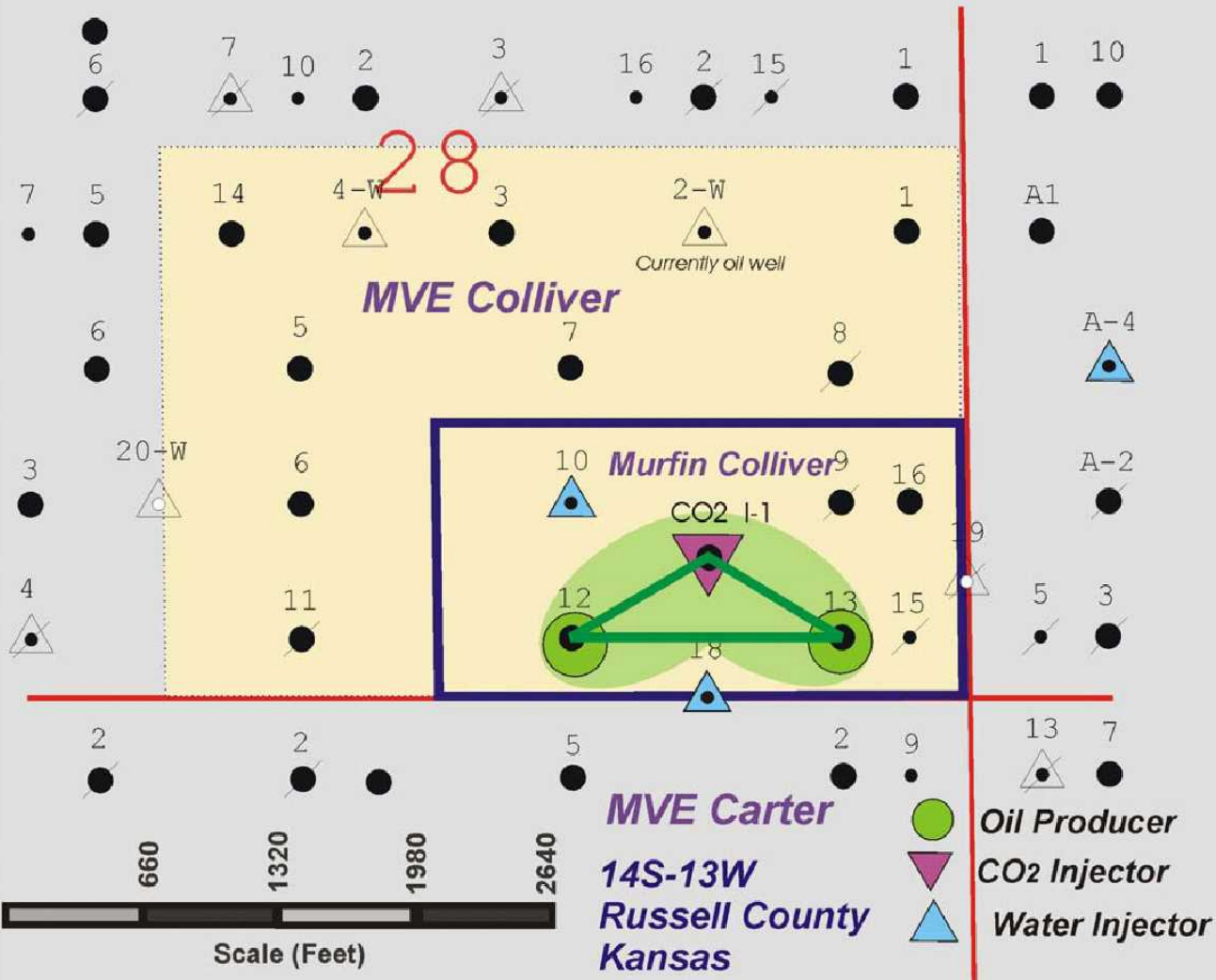
Murfin has plans to install a larger pump in CO₂ 12. This should allow the well to be pumped down and increase total fluid production from the pilot area. We do not expect the increase production will be enough to offset the over injection. CO₂ injection in CO₂ I-1 will probably need to be partially curtailed to reduce the losses. Because of our CO₂ pump limitations this may be best handled by shutting-in the injection periodically rather than trying to reduce the rate of injection. Increasing injection in CO₂ 10 will also help curtail CO₂ losses outside of the pilot recovery area or process pore volume (PPV).

CO₂ losses outside of the PPV area do not reduce the oil recovery from the PPV area. Oil recovery is more a function of the well and pump capacity provided adequate reservoir pressure is being maintained. Based on current injection and vent rates there is sufficient CO₂ committed to the project provided the WAG is started within the first 12-18 months of the project. Current expectations are that the WAG will be initiated this year potentially before or around midyear. Losses outside of the PPV area do affect the net CO₂ utilization resulting in a lower false indication of the CO₂ EOR potential for a field size project which would be more confined.

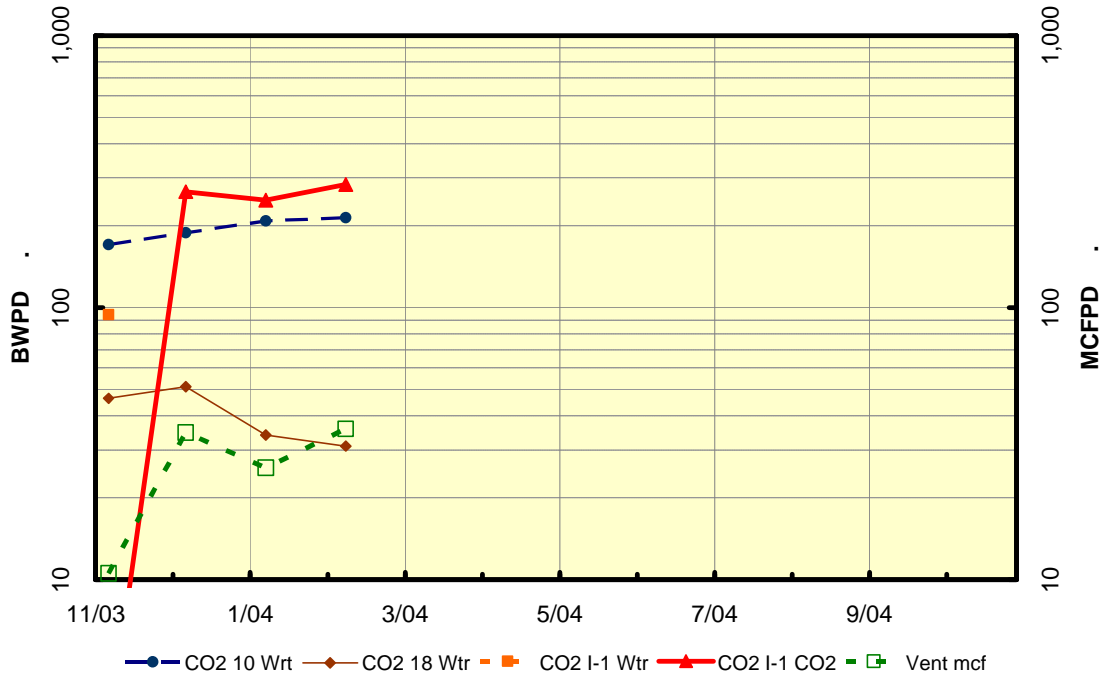
Attached:

- Pilot Map
- Monthly report
- Injection graph
- Production graph
- LKC Pilot monitoring pressure graph
- LKC Pilot monitoring wells pressures graph

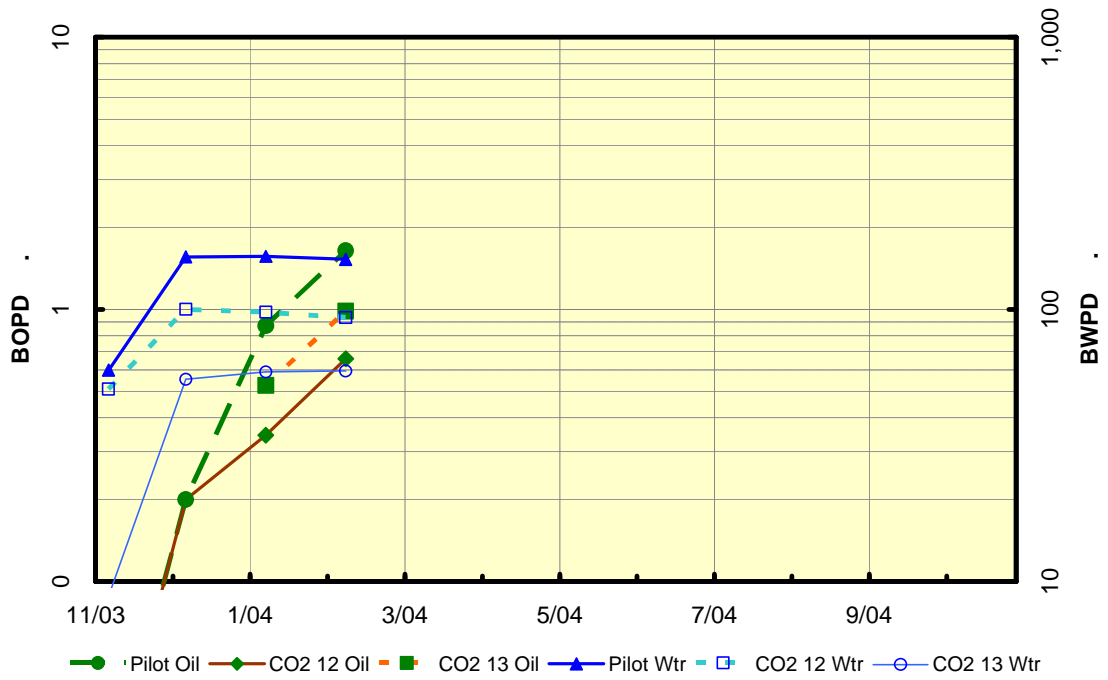
CO2 Pilot 10-Acre Pattern



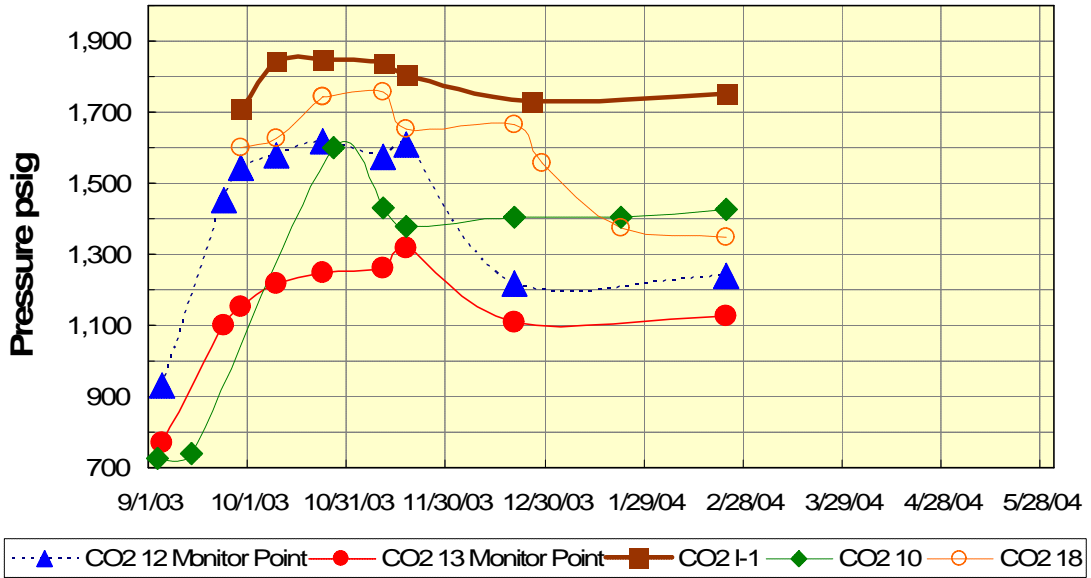
LKC Pilot Injection



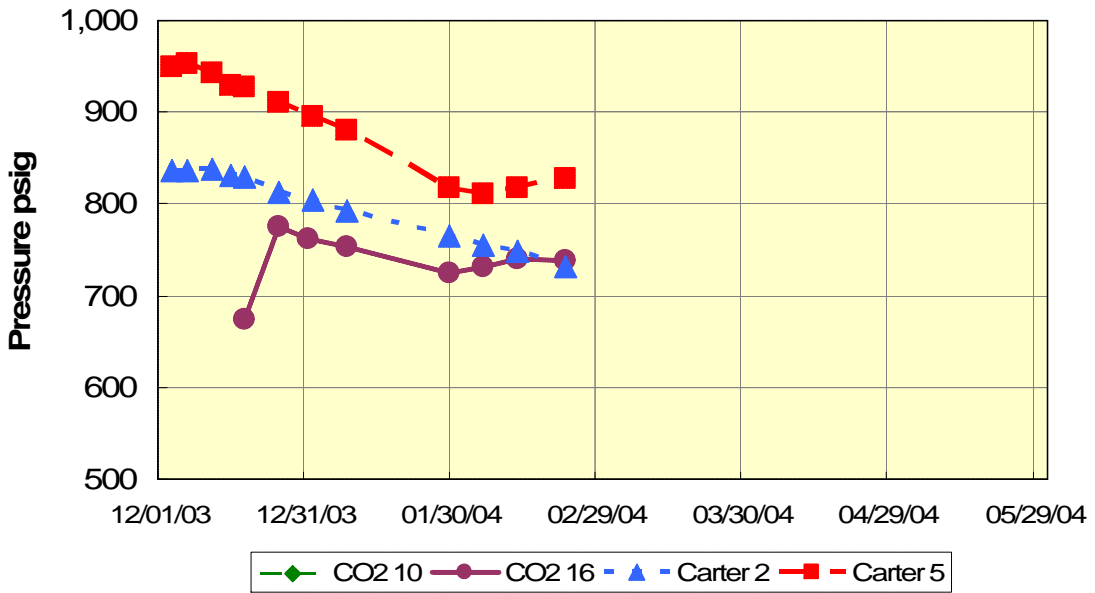
LKC Pilot Production



LKC Pilot Monitor Pressures



LKC Pilot Monitor Wells



Appendix February 2004 Preliminary Monthly Report

- Greater than normal density differences of the metered CO₂ at the skid (delta 6%) primarily because of the higher temperature at the meter.
- Water production 2/14-2/16 was estimated because of meter problems.
- Oil production allocation was based on January's allocation factor because test on CO₂ 12 were not representative of its oil production.
- I/W ratio determined based on the average gas saturation weighted volumetric average pressure within the CO₂ PPV envelope of 1,257.8psig (1,272.5psia) determined from the February pressure survey and 99°F reservoir temperature.
- Injection pressure in CO₂ I-1 cannot be increased without fracturing the well.
- CO₂ 10 has additional injection capacity. Injection pressure can be increased from the current average pressure of 380psig to 650psig (delta 270psig).