

Preliminary Monthly Report January 2004

Generally the project is proceeding about as expected or slightly better. Some minor increase in oil production has been detected but not CO₂ or HC gas. Pressures remain relatively level in all but one of the observation wells.

The preliminary monthly report for January 2004 also contains changes to the preliminary December 2003 report. Changes in the December report primarily deal with CO₂ vent and delivered CO₂ volumes. There were inconsistencies between the volumes reported on the different reports. There still appears to be some inconsistencies between the different reports. Hopefully the reports will be Q&A'd more completely in the future.

Injection information for January had to be estimated based on the delivered volumes of CO₂ and CO₂ vent because there was a failure of the CO₂ meter during the month. This was correct with a new meter before the first of February. Injection volumes for February through the 19th appear to have been measured reasonably with the exception of one day (2/6/04) which will need to be estimated for the next report.

Injection rates continue on the lower side but in the range expected. Prior to starting the project the wells were making no oil, not even a full skim of oil on the tank. Sporadic but measurable oil occurred in January and has continued to increase in February and currently averages slightly over one BOPD for the pilot are.

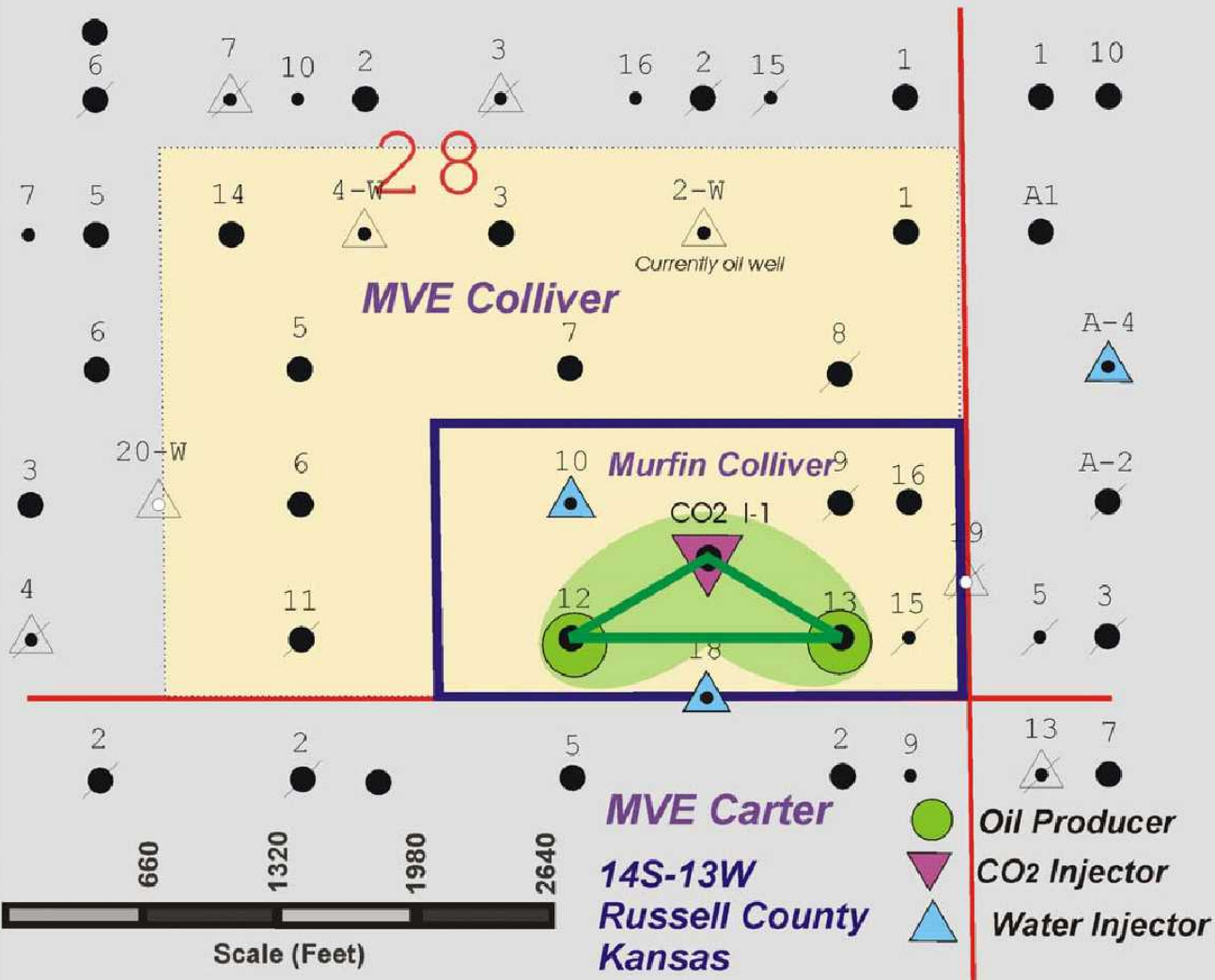
Neither CO₂ nor gas production has been detected in measurable quantities in either of the production wells. CO₂ breakthrough is taking longer than was expected. This could be positive and indicate that we are getting better displacement by the CO₂ than originally expected. Possible reasons for the delay in CO₂ arrival could be:

1. Better displacement efficiency than expected.
2. Architecturally related to the oomoldic porosity.
3. Larger losses to the North than expected.
4. Processing a larger pore volume than expected.
5. Injection out of zone.

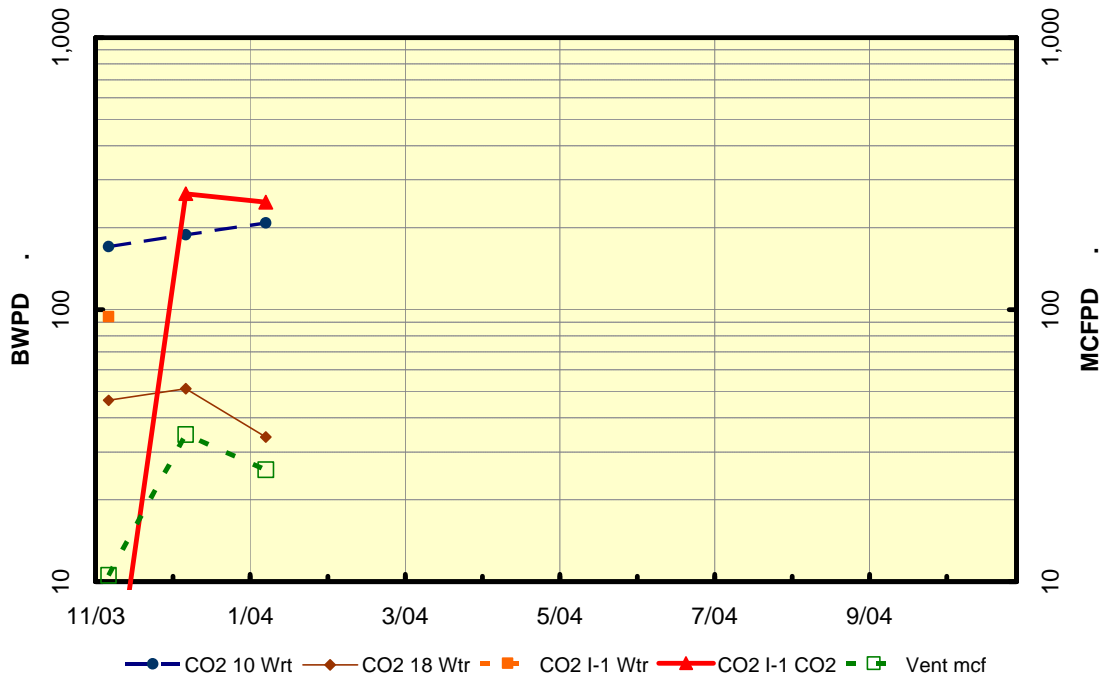
Items are in order of probability.

Pressures in the observation wells are all remaining relatively constant with the exception of Carter 2 which still appears to be declining. Pressure in the monitoring area around CO₂ 10 is also relatively constant. This is encouraging that the pressure in the pilot area is being maintained as required. Pressures at the monitoring points between the CO₂ I-1 and the production wells could not be evaluated in January. The pressure falloff test on CO₂ I-1 could not be evaluated based on surface readings because of problems with the temperature reported not being representative of the temperature in the well. Another falloff test is scheduled for this week. The temperature probe has been moved if it does not give reliable readings at the current location then other alternatives will need to be evaluated.

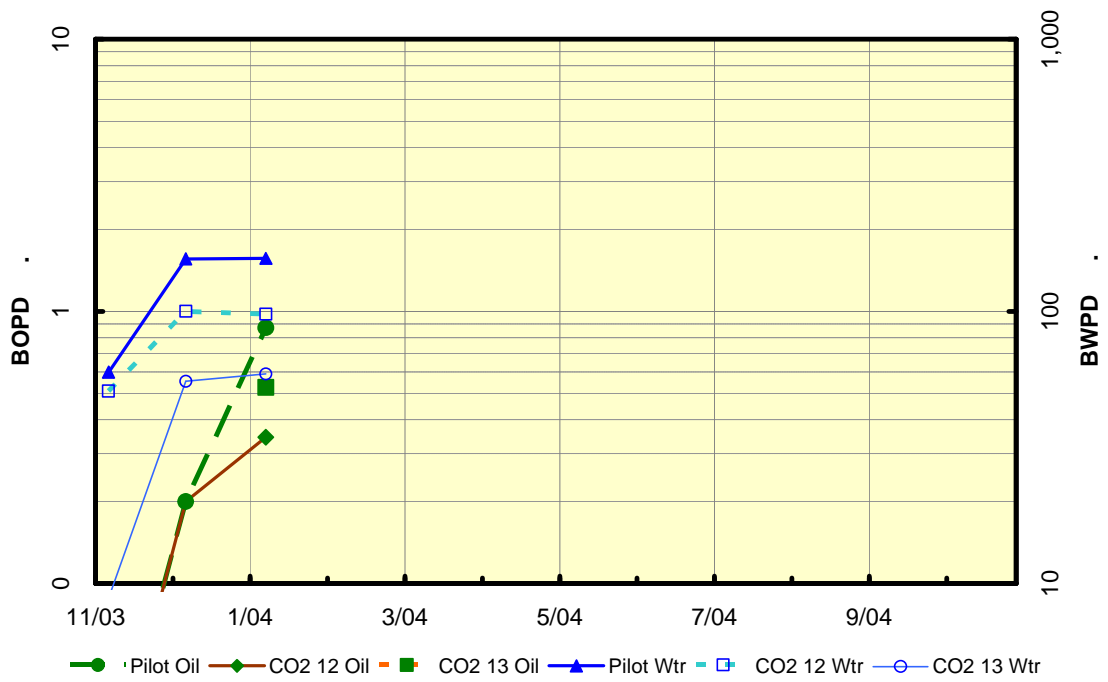
CO2 Pilot 10-Acre Pattern



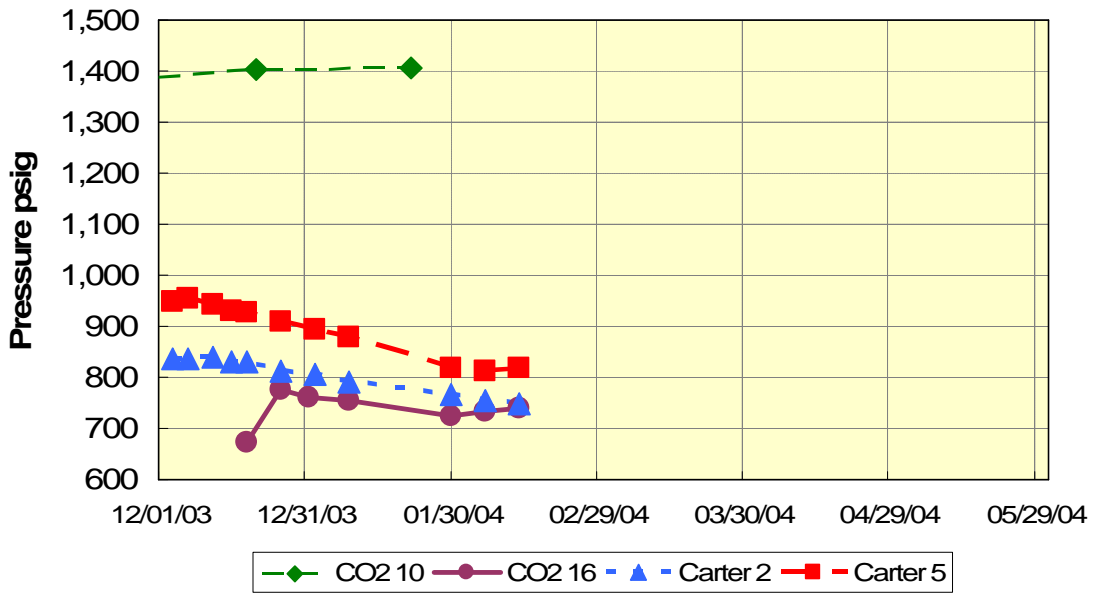
LKC Pilot Injection



LKC Pilot Production



LKC Pilot Monitor Wells



LKC Pilot Monitor Pressures

