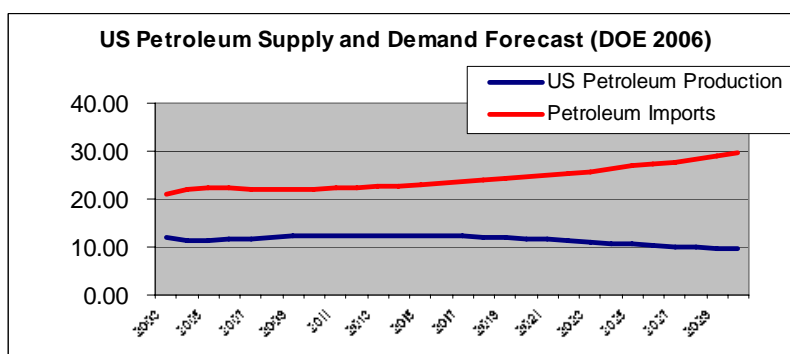


Market Analysis

The United States is the largest consumer of petroleum products in the world and requires approximately 10 million barrels of daily crude oil imports to satisfy domestic demand. As imports continue to grow, the Country's domestic production continues to fall (Figure 1). The Department of Energy (DOE) has estimated that over the next 25 years oil imports will double and unless additional domestic supplies are exploited a reliable supply of imported oil cannot be guaranteed. The nation's dependence on imported oil, as a result, could soar to 70% by 2025.



The DOE believes that CO₂-EOR, a technology with such a strong potential for widespread commercial application, to be a crucial part of its fossil energy mission in the new millennium.

DEPARTMENT OF ENERGY (DOE) CO₂-EOR REPORTS 2006

In 2006, the DOE published a series of reports examining the potential resource of stranded oil remaining within existing oil fields of the United States and has concluded that this resource could contain 377 billion barrels of oil that could be the target for Enhanced Oil Recovery (EOR) applications. Furthermore, the report stated that **“CO₂ injection is the future of enhanced oil recovery (CO₂-EOR) increasing current US domestic oil reserves by a factor of 10”** and that **“CO₂ flooding is the fastest growing method of enhanced oil recovery in the US.”**

The DOE has estimated that undeveloped domestic oil resources still in the ground (in-place) total 1,124 billion barrels. Of this large in-place resource, 430 billion barrels is estimated to be technically recoverable. This resource includes undiscovered oil, "stranded" light oil amenable to CO₂ enhanced oil recovery (CO₂-EOR) technologies, unconventional oil (deep heavy oil and tar sands) and new petroleum concepts (residual oil in reservoir transition zones).

The wide-scale implementation of "next generation" CO₂-EOR technology advances have the potential to increase domestic oil recovery efficiency from about one-third to

over 60 percent, doubling the technically recoverable resources in six domestic oil basins/areas studied to date.

State-of-the-art enhanced oil recovery with **carbon dioxide (CO₂) could add 89 billion barrels to the recoverable oil resources of the United States**, the Department of Energy has determined. **Current U.S. proved reserves are 21.9 billion barrels.**

Beginning efforts to develop the 89-billion-barrel addition to resources would depend on the availability of commercial CO₂ in large volumes. If this oil could be added to the category of proven reserves, the U.S. would have the fifth largest oil reserves in the world behind Iraq, which has 115 billion barrels, based on present estimates; and an additional 430 billion barrels would make it first, ahead of Saudi Arabia with 261 billion barrels.

The Company is in the enviable position of owning a dominant position in the largest undeveloped CO₂ field in the Country. By executing its business plan, the Company will be able to capitalize on the huge opportunity of EOR and maximize value for its shareholders.

With oil prices at record levels, supplies of domestic reserves declining and ongoing tensions in the Middle East, the opportunity for the Company has never been better. By capitalizing on its world class CO₂ source field the Company is in a position today of being able to add substantial shareholder value through the advancement of its CO₂-EOR objectives.

THE PERMIAN BASIN

The recent DOE EOR studies suggest that there are more than 182 major oil reservoirs amenable to CO₂ flooding in the Permian Basin (Table 1), representing incremental oil reserves of up to fifteen billion barrels of oil. These applications will require significant new long-term CO₂ supplies and a significantly expanded pipeline capacity.

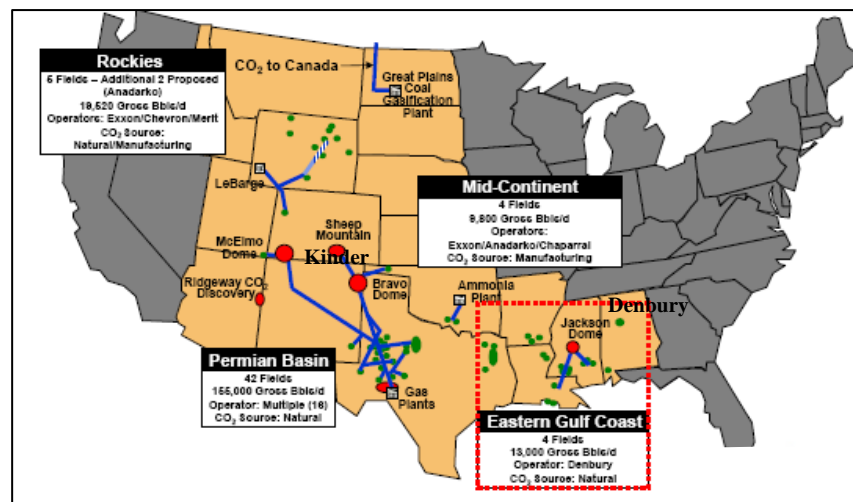
In the years since the first CO₂ miscible flood in the Permian Basin in 1972, the process has been implemented around the world and the petroleum industry has refined the technology and developed an impressive database for assessing CO₂ flood candidates. While the economics are sensitive to commodity prices, there is no doubt that CO₂ flooding can provide a reliable technique to achieve significant incremental oil recoveries. The billionth barrel of CO₂ induced incremental Permian Basin oil has recently been produced.

Today about 175,000 barrels of oil per day or 20 per cent of Permian Basin production is the result of CO₂-EOR flooding projects. There are currently 72 active floods ongoing in the Permian Basin with many of these initiated in the past three years due to rising oil prices. The Permian Basin is currently injecting approximately 1.5 billion cubic feet of CO₂ per day with an estimated demand significantly higher than this. The current

pipeline infrastructure transporting CO₂ gas from the McElmo Dome, the Bravo Dome and Sheep Mountain fields of Colorado and Northern New Mexico is essentially constrained and cannot supply the pent up demand.

Region	No. of Reservoirs	Estimated recoverable(mmBbls)
New Mexico	55	1,276 – 2,846
West Texas	127	5,596 – 12,444
Total	182	6,872 – 15,290

Permian Basin EOR-CO₂ Potential



Map of CO₂ Projects and Sources (From Denbury Resources website)

Within the United States today there are currently two major suppliers of Natural CO₂ for the purposes of EOR, Kinder Morgan in the Permian Basin of Texas and Denbury Resources in Mississippi and Louisiana (Figure 2). Of significance is the fact that each of these two Companies own their own source field of CO₂ and each has been able to leverage their supplies to purchase oil fields where considerable additional reserves can be recovered through the injection of CO₂. The Company is in the enviable position of being able to emulate the successes of Kinder and Denbury by leveraging its own significant reserve of CO₂ into mature oil fields within the Permian Basin where significant remaining reserves can be recovered. The recent DOE reports has highgraded 182 fields that could potentially recover up to 15 billion barrels of additional oil that would otherwise remain as stranded reserves. The CO₂ resource that would be required to access this reserve has been estimated at approximately 49 trillion cubic feet and is well in excess of existing supplies.

The current third party gas demand in the Permian Basin is restricted today due to the lack of long term supply. While there is approximately 1.5 billion cubic feet per day of CO₂ being transported to the Permian Basin the vast majority of CO₂ is being utilized by

Kinder Morgan in its own oil fields. Kinder Morgan is currently the largest producer of EOR oil in the Permian Basin through its ownership of the giant Yates and SACROC oil fields. Under the current oil price environment Kinder Morgan is reaping the rewards of tertiary oil recovery and has curtailed long term 3rd party gas agreements.