

New Partner Gives LAK Ranch a New Lease on Life



Derek Oil and Gas (DRK:TSXV; DRKOF:OTCBB) has recently teamed up with **Ivanhoe Energy** (TSX: IE; NASDAQ: IVAN) to develop the LAK Ranch enhanced oil recovery project in east Wyoming.

The LAK Ranch property got a new lease on life by way of its new venture partner—the very credible and storied Ivanhoe Group. Ivanhoe Energy has become the operator and can earn a 60% interest in the property by investing US\$5 million in development costs. Ivanhoe will initially spend US\$1.1 million on development to earn a 36% interest.

Ivanhoe bring a number of key ingredients that are precisely required for the unique situation at LAK Ranch. Most notably, they bring a record of proven deposit finding, proven financing, and proven operating, and all with blue chip credibility and scope. As well, they bring the industry's foremost experts in a new technology that makes this kind of oil-field deposit economically feasible.

Proven Operators

Like most companies, Occidental Petroleum started with an idea. As it turned out, that idea belonged to David Martin – the first employee of that company. Unlike most ideas, Martin's strategy to look for oil in Libya was spectacularly successful and ultimately lead Occidental Petroleum to become a power player in the global oil and gas industry. From scratch, David Martin helped built Occidental into a company with US\$9 billion in annual revenue. Oil deposits were discovered, financed, developed and operated. Producing oil wells lead to further discoveries and the path to steady growth was set in motion. David Martin and his colleagues have demonstrated, to an extraordinary degree, their ability to create and manage operations of even the largest size.

Proven Financiers

Since the 1980's, Robert Friedland has never ceased to show off his flair for raising giant sums of capital. In five high-profile natural resource deals alone, he raised over \$2 billion. With this capital, he has financed every phase of the resource exploration cycle. He has explored, discovered, developed and mined all kinds of raw material from all over the world. He is a force in the mining and energy sector and undoubtedly brings a unique ability to attract venture capital to the LAK Ranch Project.

The Property

LAK Ranch is situated on the eastern border of Wyoming in the Powder River Basin. First discovered in the 1920's, it was explored periodically by senior oil producers, such as Texaco and Conoco. In 1984, Surtek Inc. estimated the in-situ resource at over 100 million barrels. In 1997, Derek Oil and Gas acquired a 75% interest in the property, later increasing their interest to 100%. The property consists of nearly 7,500 acres and is in close proximity to a refinery in the town of Newcastle, WY, two miles away. So far, US\$9.5 million has been spent on development.

The deposit is a so-called 'cold' oil deposit; the oil is locked in hard sand-like material and has, until very recently, not been economical. With emerging technology, however, it is estimated that up to 70% of the deposit can now be exploited profitably. The product is high-quality – useful for the production of jet fuel – and yields West Texas Intermediate oil price, plus a premium.

DEREK

Oil & Gas Corporation

Poised and Ready. Derek Oil & Gas is Positioned at the forefront of Wyoming's burgeoning Oil and Gas sector.



investment CONSIDERATIONS

- » Development underway on world-class Wyoming Lak Ranch Oil Project. Ivanhoe to invest over \$5 million in pilot phase and initial field development.
- » Project targeting potential production of up to +10,000 bbl's/day.
- » Gross revenues estimated at \$US 840 Million to \$US 2 Billion, based on recovery factors of 30 to 70% and oil prices of US \$28 per barrel.
- » Strong near and long-term demand forecasted in both Canadian and U.S. markets as policy shifts to reducing dependency on overseas suppliers.
- » Proven management and technical team with demonstrated expertise in all aspects of exploration, development and production.

»UP FRONT Management of Ivanhoe Energy: Proven Mine and Oil Finders



David Martin
Chairman
Ivanhoe Energy



Robert M. Friedland
Deputy Chairman
of the Board
Ivanhoe Energy

Ivanhoe Energy is in the stable of companies controlled by international financier Robert M. Friedland, one of the best-known resource financiers in North America and the founder and Chairman of Ivanhoe Mines Ltd., a Canadian public company whose copper and gold discoveries in Mongolia have sparked a gold rush by western mining companies during the past two years. Throughout his career, Mr. Friedland has been known for two things: his ties to the natural resource sector, and his ability to best himself, that is, he has consistently increased the scope of his projects.

This escalation demonstrates a rising bar for the Friedland group, and makes a powerful statement about the potential of the Powder River Basin, where LAK Ranch is located. The 100-million-plus barrels that LAK Ranch alone is estimated to possess is certainly in the league of these kinds of players. The Ivanhoe Group are indeed serious players, and if their track record demonstrates anything, it's that they have an ability to pick winning projects.

Then there's David Martin, chairman of Ivanhoe Energy and former executive vice

president of Occidental Petroleum. Mr. Martin is a highly acclaimed petroleum geologist who was once referred to by *The Financial Post* as "one of the world's greatest oil finders" who "helped build the company [Occidental Petroleum] into a world beater". Martin was also credited with discovering large oil fields in Libya for the company back in the 1960's, before geopolitical strife forced American operators out of the country in 1986. Occidental's reserves in that country were almost 4 billion barrels. Today, Libya is known to possess the world's ninth largest oil reserve of 30 billion barrels.

Leading Edge Technology

Derek Oil & Gas Corporation		
CDN	Symbol: DRK	Exchange: TSX Venture Exchange
US	Symbol: DRKOF	Exchange: OTC BB



Work on the pilot phase has already begun. After approximately 18 months of testing, the joint partners will have a good idea of the recoveries, and by that time as well, a better understanding of the boundaries of the reservoir. At that time, it is estimated that 40-80 potential well sites can produce from 250-590 bbl/day each for 7-11 years. The operators estimate that production can reach 4,500 to 10,000+ bbl/day.

The operating and royalty costs of production have been estimated at US\$12/bbl. At current oil prices, and assuming the partners vest their 60% interest, Derek Oil and Gas' share of annual production has an estimated value of up to \$32 million. The theoretical net present value of the oil field (at 0% discount) is estimated at \$616 million to Derek's credit, or over \$25/share. This is what companies call a 'company-builder' – a solid asset that produces stable and robust earnings for many years to come. This allows the company to take their expertise with this emerging technology and find other similar projects. Indeed, the company recently stated "Derek Oil and Gas has

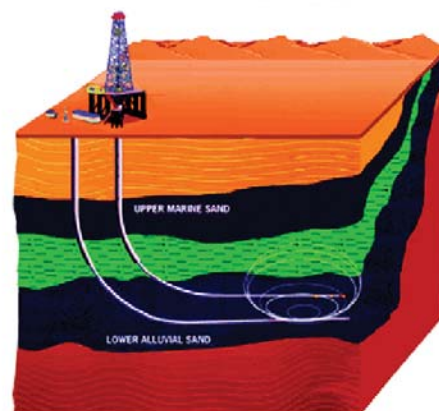
defined a corporate strategy focused on establishing new production from reservoirs containing significant quantities of oil, which were previously uneconomic to recover using conventional means."

Ivanhoe Energy brings more than just operating expertise to this project. They have been on the hunt for new extraction technologies for over 25 years. David Martin, John Carver and Leon Daniel, all former executive vice presidents with Occidental Petroleum, each spent over 30 years with the US energy giant. They helped build it into what it is today—a company with over \$9 billion in annual revenue, a market value of over \$17 billion, and with operations all over the United States and the world. But besides building all this, they weren't content with traditional technologies and were constantly seeking new science in the field.

Since the early 1980's, these men teamed up with a small research firm, called Ensyn Petroleum, in ongoing attempts to perfect a new process for extracting value-added energy products from what was otherwise considered waste material. There were failures. The technology of the day was not ready for their big ideas, it seemed. But just recently, it has finally caught up to them.

Elsewhere, Derek Oil and Gas first acquired an interest in the LAK Ranch property back in September 1997. LAK Ranch is a 'cold' oil deposit and the technology to exploit it economically has only recently been brought to light. Only the vision of the company allowed it to understand the property's potential. Derek refused to let it go. In fact, Derek increased their interest in the property

SAGD Technology



from an initial 75% to 100% – at the earliest opportunity and they kept buying small royalty positions to increase their percentage to 4.1%. By September 2003, it had been six long years of locating a partner that was visionary enough to bring this exciting property to fruition.

Ensyn's proprietary RTP, Rapid Thermal Processing, or fast pyrolysis, is a scientifically-based process of extraction of energy products using heat. Ivanhoe Energy officially acquired an interest in LAK Ranch in November 2003 and has become the operator of the project. Ivanhoe has also acquired a stake in Ensyn. After 20 years, the process has finally been shown to convert previously uneconomic material into valuable oil and other energy products. This process may be exactly what is required for the LAK Ranch property in Wyoming. This would be one of the first commercial reservoirs in the world to utilize this technology. The advent of Ivanhoe Energy is no accident! Martin, Carver and Daniel have been looking for both deposits like LAK Ranch, and new technologies to develop for most of their professional lives, and by all accounts, Derek Oil and Gas has now lead them right to it.

The process works by injecting steam into the heavy material at 500°C, and when the material has been suitably liquefied by this steam, it can then be easily extracted by flowing it through the well as normal. For the LAK Ranch deposit, the process will be used to produce oil by injecting the steam into the oil-bearing sandstone through one well and extracting the heated crude through a parallel well. As an added bonus, the heavy fraction of the produced crude is used as fuel to generate the heat for the steam injection. This latter element dramatically cuts heating costs – the largest component of the extraction costs in this project. By any account, this is very exciting technology, and may be directly applicable to the LAK Ranch project. As the project unfolds and develops, one thing for certain is that the investment community and the entire oil and gas world will be watching LAK Ranch closely.

The Macro Picture

Oil prices have been escalating sharply in response to geopolitical pressures and a falling US Dollar. Shallow pipelines in Iraq have been subject to devastating sabotage since the conflict escalating there in 2003.

Because of pressures on the US Dollar, due to a growing current account deficit and revelations about a potential crisis in the social security program, OPEC nations are realizing less for their dollar-denominated oil sales.

With the continuation of the present U.S. administration's policy of high deficits and

aggressive foreign policy, the bullish environment for oil prices is expected to continue for the foreseeable future.



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