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**Kenner East Prospect**

**Section 30, T3N-R6E**

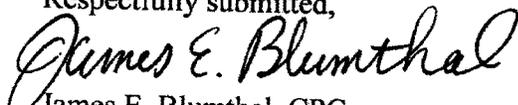
**Clay County, Illinois**

**January 26, 2012**

## **Kenner East Prospect, Clay County, Illinois**

The Kenner East prospect lies on the East flank of the Kenner Pool, which has produced over 2,600,000 BO since its discovery in 1943. Primary production was from the Benoist and Aux Vases sandstones at depth of 2,700-2,800 feet. Recent new drilling on the east flank of this field has discovered new, untapped reserves in the Aux Vases sandstone. The attached Type Log (Deaton-Feldhake #1) details new production from the Aux Vases sandstone (IP:28 BOPD) in September of 2011. Two additional wells have been drilled to the north (Deaton-Feldhake #2, #3) , as well as one to the south (Jim Ordner-Vincent #1). All of these wells are completed in the Aux Vases sand and have all noted oil shows from the Upper Cypress sandstone (2,490-2,520 feet). State records indicate that was never produced in the old wellbores from 1943-1968. These four new wells have "rejuvenated" this area for untapped potential. The attached isopach (thickness) map on the Aux Vases and Upper Cypress sandstones detail a significant thick sandstone reservoirs that can be exploited . The proposed drilling of two new wells on the Briscoe acreage is strongly recommended to expand this new play. In addition to the Aux Vases and Upper Cypress, secondary potential may well be present in the Benoist and Lower Benoist sandstone. A total depth of 2,900 feet would evaluate all four potential reservoirs.

Respectfully submitted,

  
James E. Blumthal, CPG  
AAPG #3324

Kenner East Prospect Summary Sheet

Locations: Briscoe #1: 330' N & 660' E of SW/c NW/4 SE/4 Section 30 , T3N-R6E

Briscoe #2: 330' S & 660' E of NW/c SW/4 SE/4 Section 30, T3N-R6E

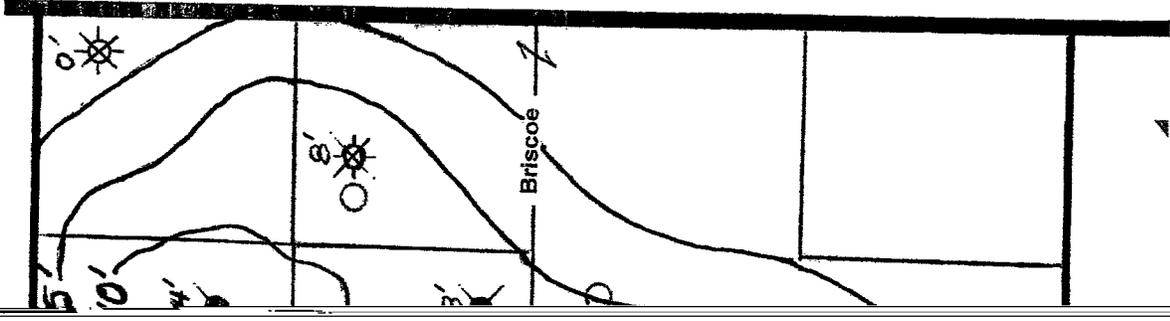
Drilling Unit: S/2 NW/4 SE/4 & N/2 SW/4 SE/4 all in Section 30 T3N-R6E,

Third Principal meridian, Clay County, Illinois

Depth: 2,900 feet

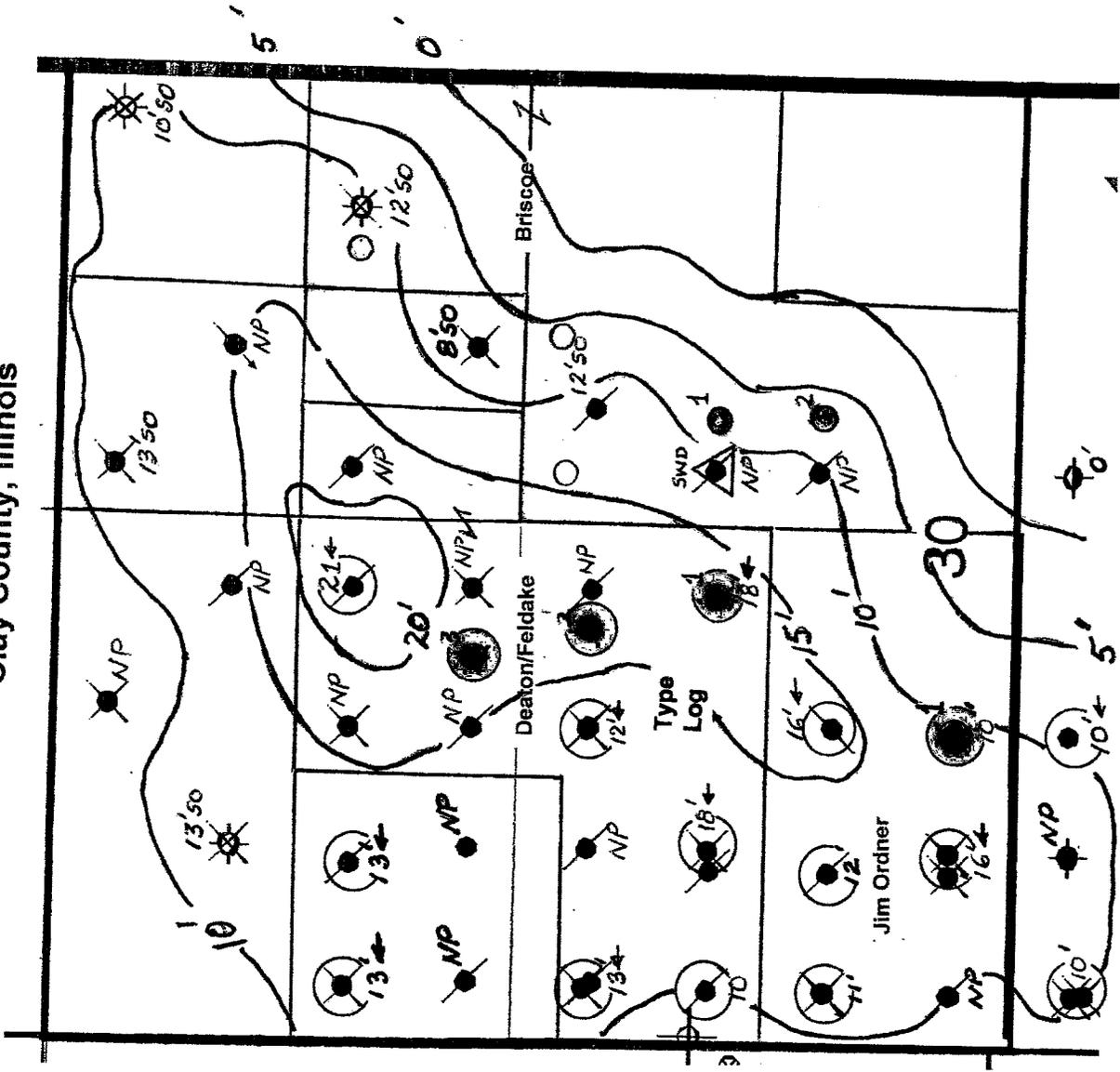
Objectives:

Upper Cypress Sandstone	2,512'
Benoist Sandstone	2,682'
Lower Benoist Sandstone	2,706'
Upper Aux Vases Sandstone	2,778'



Scale: 1 inch=880 feet  
Jim Blumthal, CPG

**T3N-R5E**  
**Clay County, Illinois**



**Isopach: Aux Vases Sand**  
**Net Oil Probable**  
**Interval: 5 feet**

**NP: Not Drilled Deep Enough**  
**AV: Aux Vases Producer**  
**10': Feet of Pay**

- Oil Well
- Plugged Oil Well
- Plugged inj Well
- Dry Hole/Oil Show
- Location

2450

Type Log  
Ostreich  
Deaton-Feldhake #1  
30-3N-5E  
Clay Co., IL

Base Barlow Lime

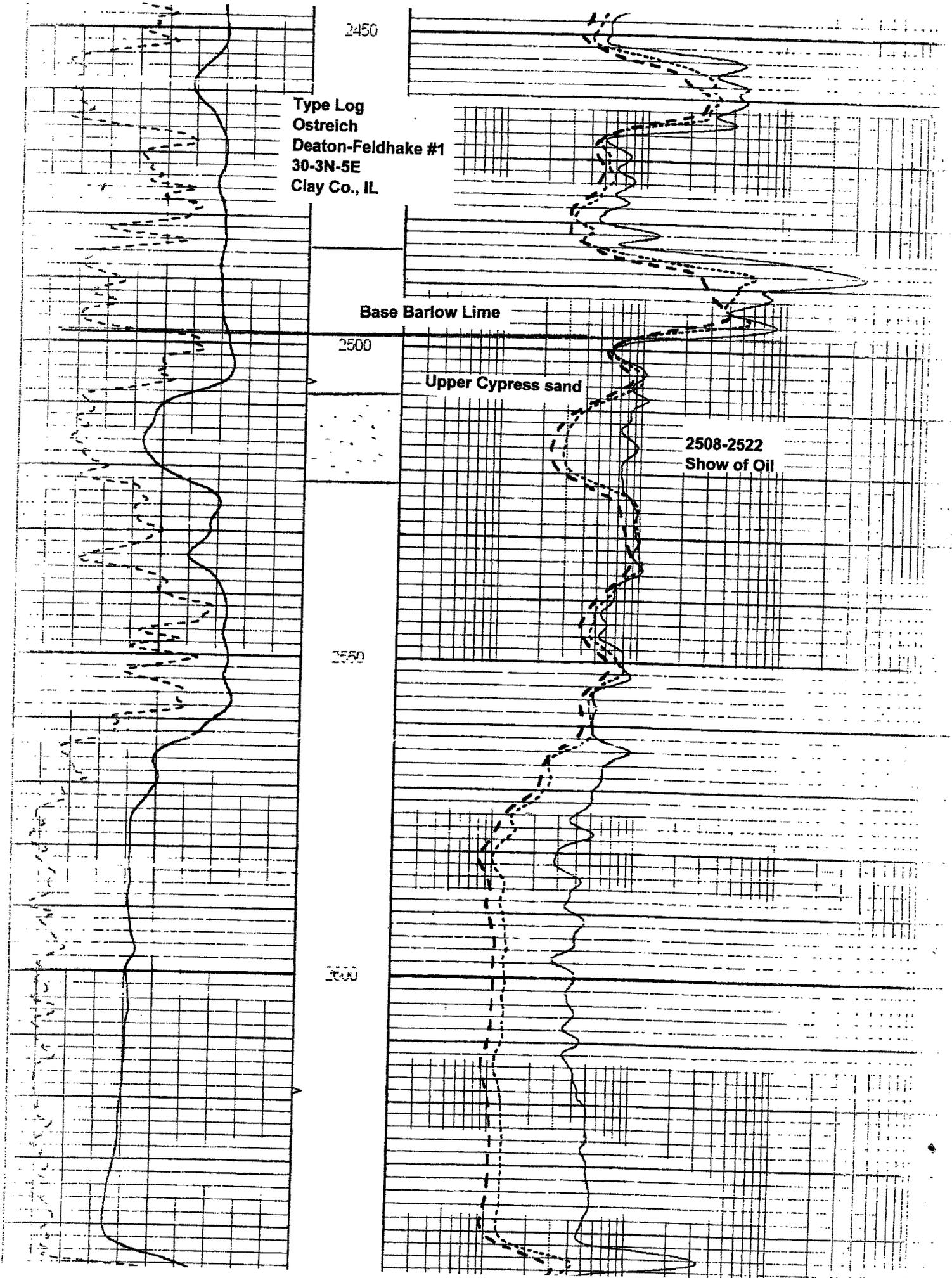
2500

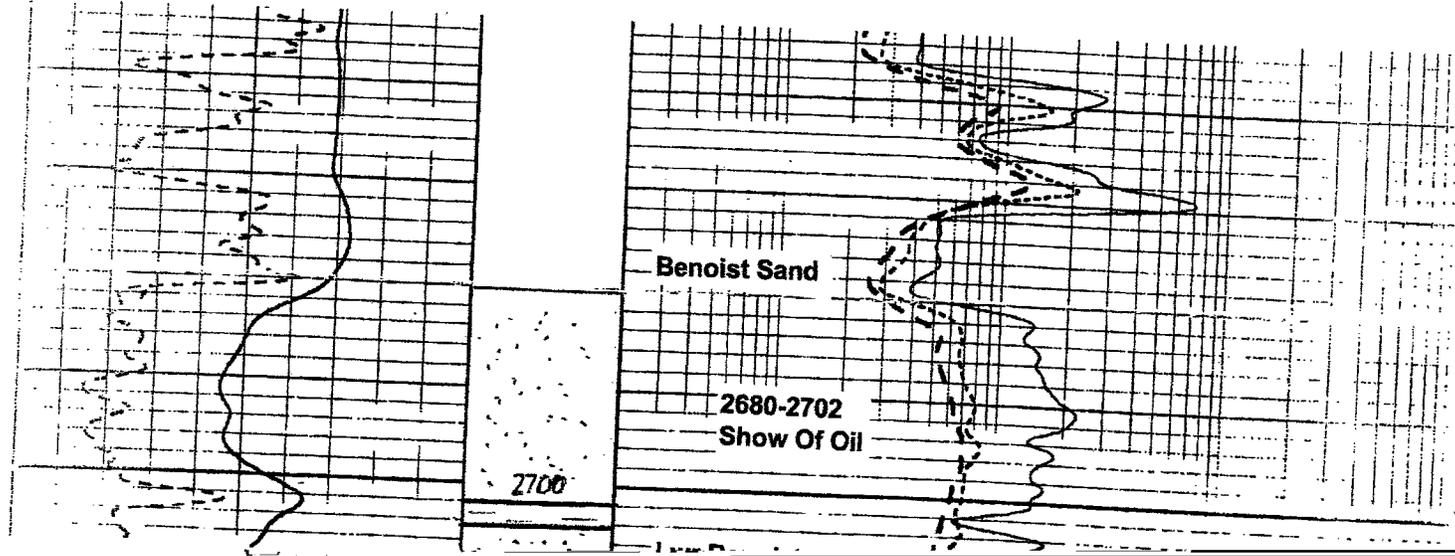
Upper Cypress sand

2508-2522  
Show of Oil

2550

2600





Benoist Sand

2680-2702  
Show Of Oil

2700

## Section 263, IRS Tax Code, Oil and Gas

### Intangible Drilling Costs

The costs of developing oil, gas, or geothermal wells are ordinarily capital expenditures. You can usually recover them through depreciation or depletion. However, you can elect to deduct intangible drilling costs (IDCs) as a current business expense. These are certain drilling and development costs for wells in the United States in which you hold an operating or working interest. You can deduct only costs for drilling or preparing a well for the production of oil, gas, or geothermal steam or hot water.

You can elect to deduct only the costs of items with no salvage value. These include wages, fuel, repairs, hauling, and supplies related to drilling wells and preparing them for production. Your cost for any drilling or development work done by contractors under any form of contract is also an IDC.

You can also elect to deduct the cost of drilling exploratory bore holes to determine the location and delineation of offshore hydrocarbon deposits if the shaft is capable of conducting hydrocarbons to the surface on completion. It does not matter whether there is any intent to produce hydrocarbons.

If you do not elect to deduct your IDCs as a current business expense, you can elect to deduct them over the 60-month period beginning with the month they were paid or incurred.

**Amounts paid to contractor that must be capitalized.** Amounts paid to a contractor must be capitalized if they are either:

- Amounts properly allocable to the cost of depreciable property, or
- Amounts paid only out of production or proceeds from production if these amounts are depletable income to the recipient.

**How to make the election.** You elect to deduct IDCs as a current business expense by taking the deduction on your income tax return for the first tax year you have eligible costs. No formal statement is required. If you file Schedule C (Form 1040), enter these costs under "Other expenses."

For oil and gas wells, your election is binding for the year it is made and for all later years. For geothermal wells, your election can be revoked by the filing of an amended return on which you do not take the deduction. You can file the amended return for the year up to the normal time of expiration for filing a claim for credit or refund, generally, within 3 years after the date you filed the original return or within 2 years after the date you paid the tax, whichever is later.

**Nonproductive well.** If you capitalize your IDCs, you have another option if the well is nonproductive. You can deduct the IDCs of the nonproductive well as an ordinary loss. You must indicate and clearly state your election on your tax return for the year the well is completed. Once made, the election for oil and gas wells is binding for all later years. You can revoke your election for a geothermal well by filing an amended return that does not claim the loss.

**Costs incurred outside the United States.** You cannot deduct as a current business expense all the IDCs paid or incurred for an oil, gas, or geothermal well located outside the United States. However, you can elect to include the costs in the adjusted basis of the well to figure depletion or depreciation. If you do not make this election, you can deduct the costs over the 10-year period beginning with the tax year in which you paid or incurred them. These rules do not apply to a nonproductive well.

### Exploration Costs

The costs of determining the existence, location, extent, or quality of any mineral deposit are ordinarily capital expenditures if the costs lead to the development of a mine. You recover these costs through depletion as the mineral is removed from the ground. However, you can elect to deduct domestic exploration costs paid or incurred before the beginning of the development stage of the mine (except those for oil, gas, and geothermal wells).