

KERNS PETROLEUM, INC.

**Eumont State # 1
Lea County, New Mexico**

Technical Presentation before the New
Mexico Oil Conservation Division in
support of the Application of
Kerns Petroleum, Inc.

OCD Case Number 14160

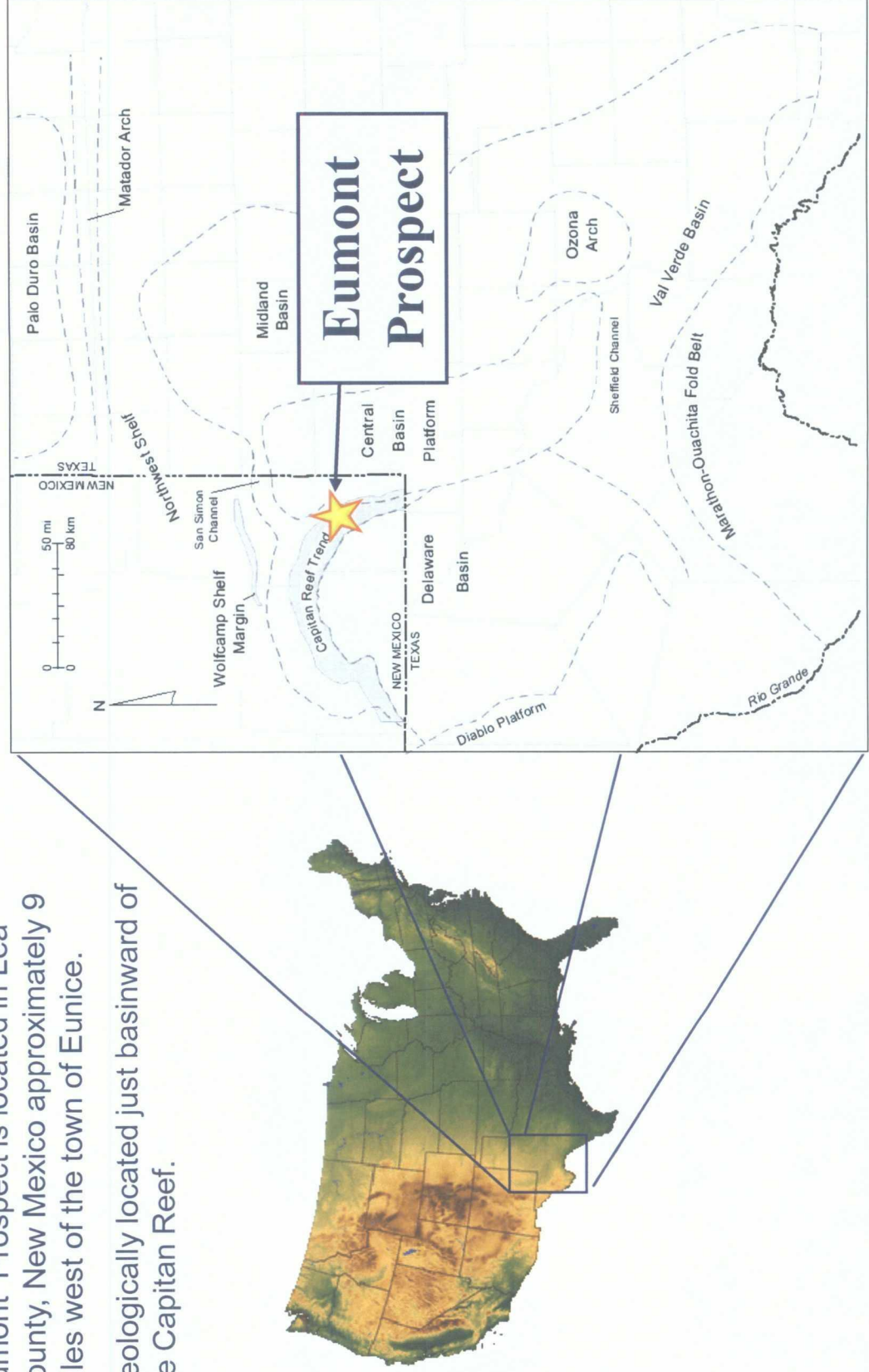
August 7, 2008



Oil Conservation Division
Case No. 3
Exhibit No.

Eumont Prospect Locator Map

- Eumont Prospect is located in Lea County, New Mexico approximately 9 miles west of the town of Eunice.
- Geologically located just basinward of the Capitan Reef.



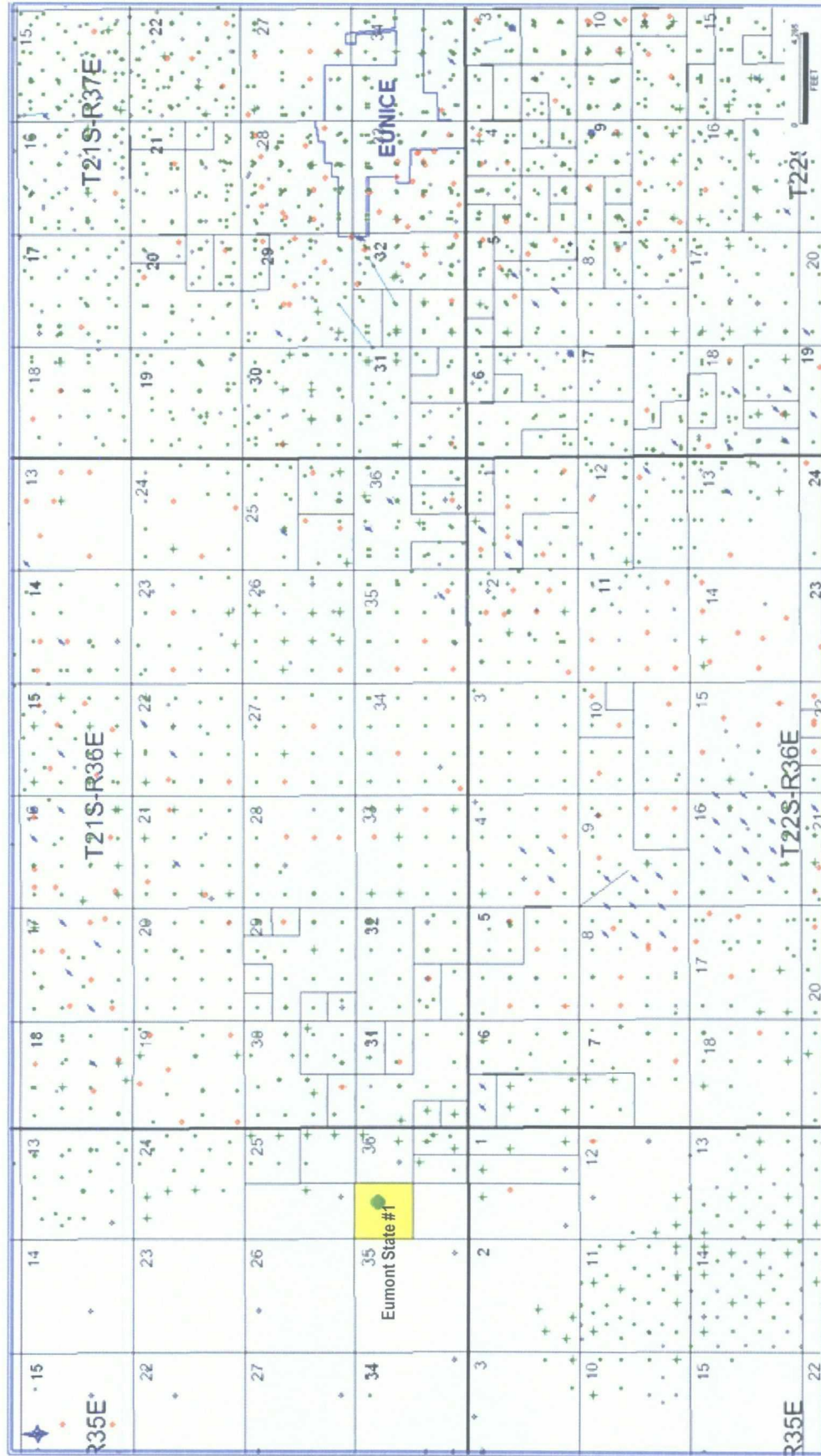
Proposal by Kerns Petroleum

- Creation of a new pool of oil from the Yates & Seven Rivers formations to be named West Eumont; Yates-Seven Rivers (Oil) pool comprising the NW// of Section 36-T21S-R35E, Lea County
- Granting of a discovery allowable
- Establishment of special pool rules including a special depth bracket allowable of 350 barrels of oil per day, effective as of the date of first production from the discovery well, Eumont State #1

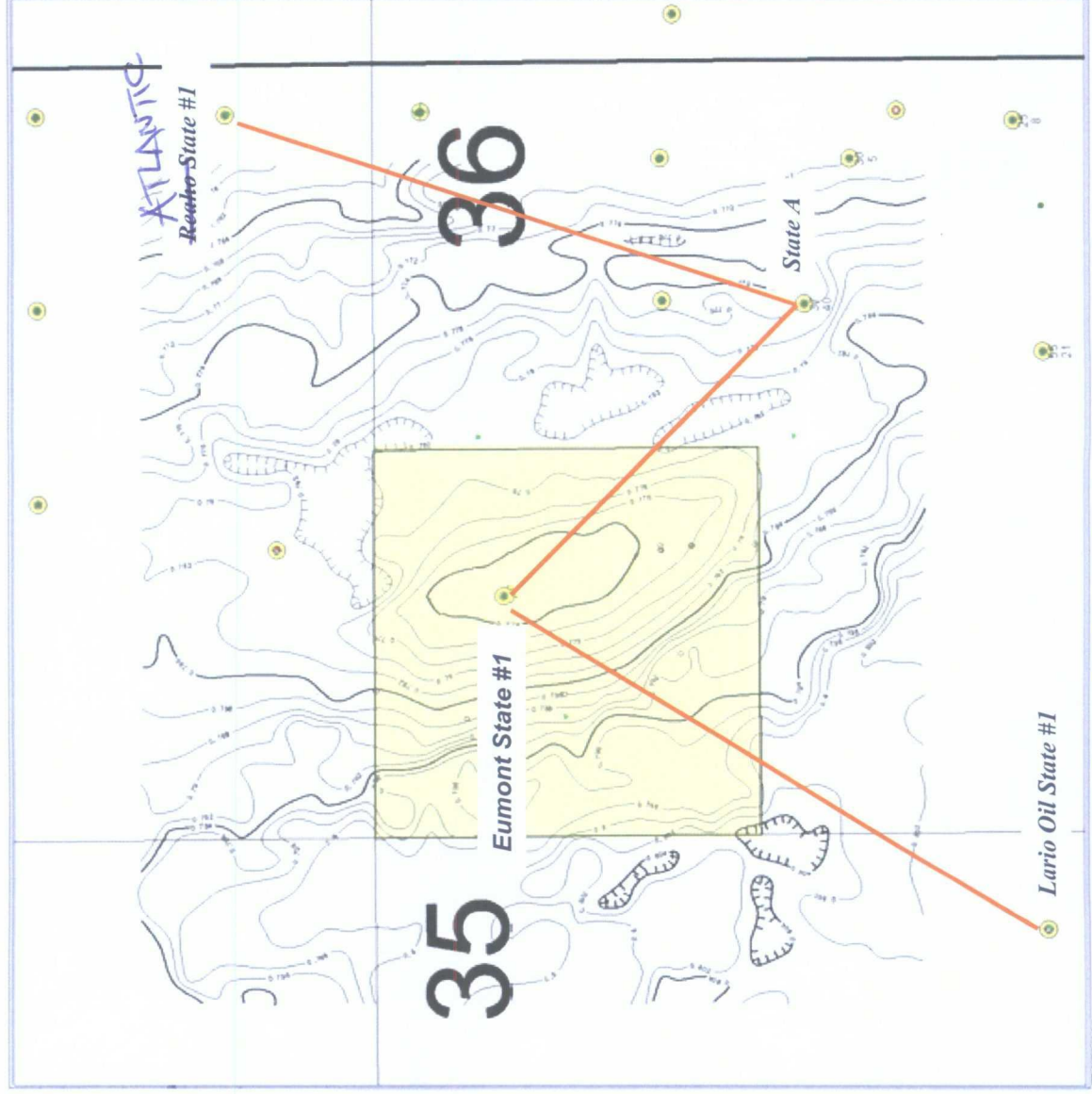
Proposed West Eumont Pool

- NW/4 Section 36 – T21S – R35E [Closure within 160 acres]
- Nearby Seven Rivers Oil Pools [Eumont Yates-7 Rvrs-Qn to the Northeast & Jalmat Tan-Yates-7 Rvrs to the East and Southeast] are located on the Eastern Platform margin. Eumont Prospect is downslope.
- West Eumont structure is a four-way closure defined by 3-D seismic.
- West Eumont structure separated vertically and horizontally from nearby Eumont and Jalmat pool production in the Seven Rivers.

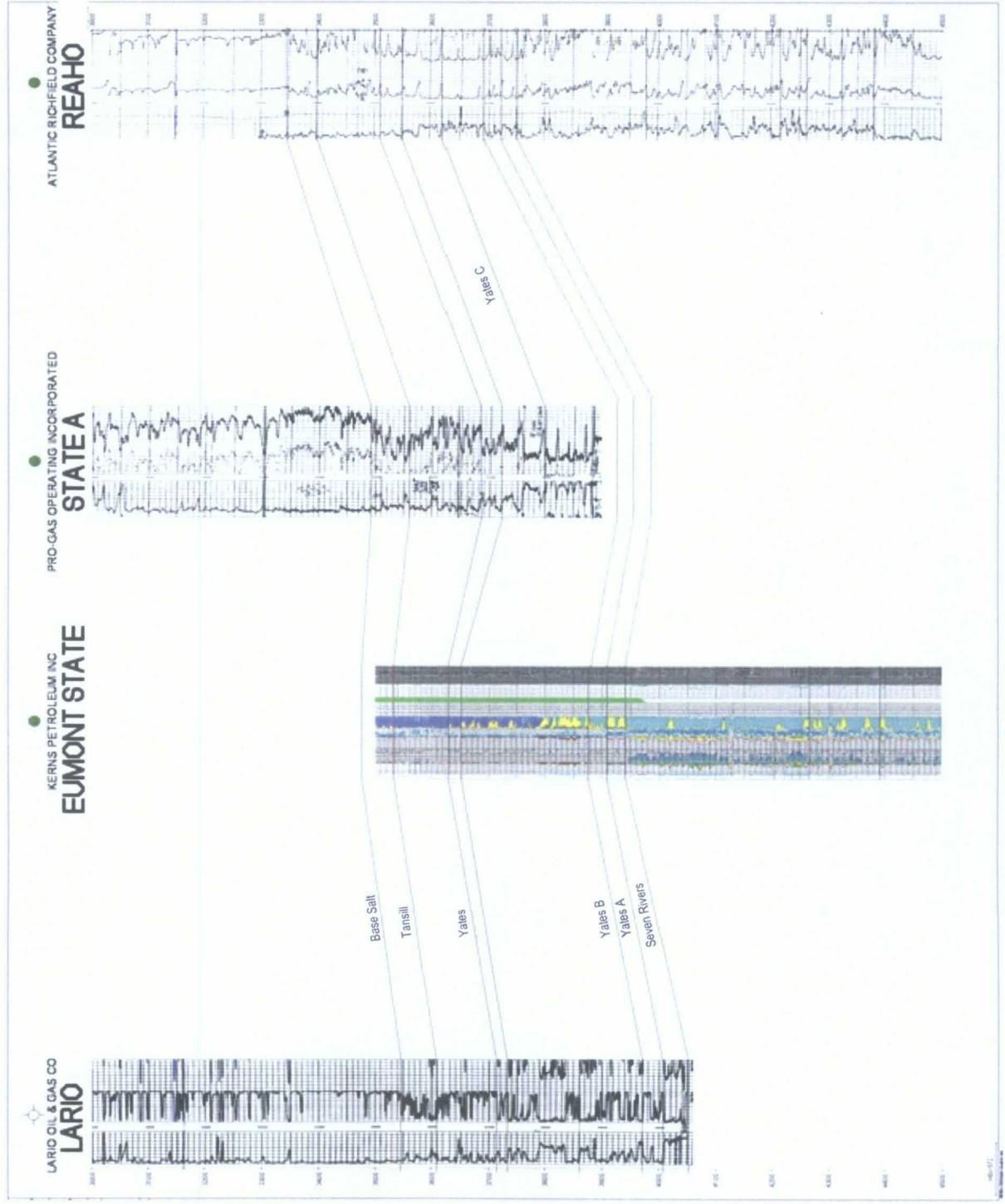
Eumont Area



3-D Seismic Time Structure – Top Seven Rivers



Geologic Cross Section



Special Pool Rules - Oil Allowable

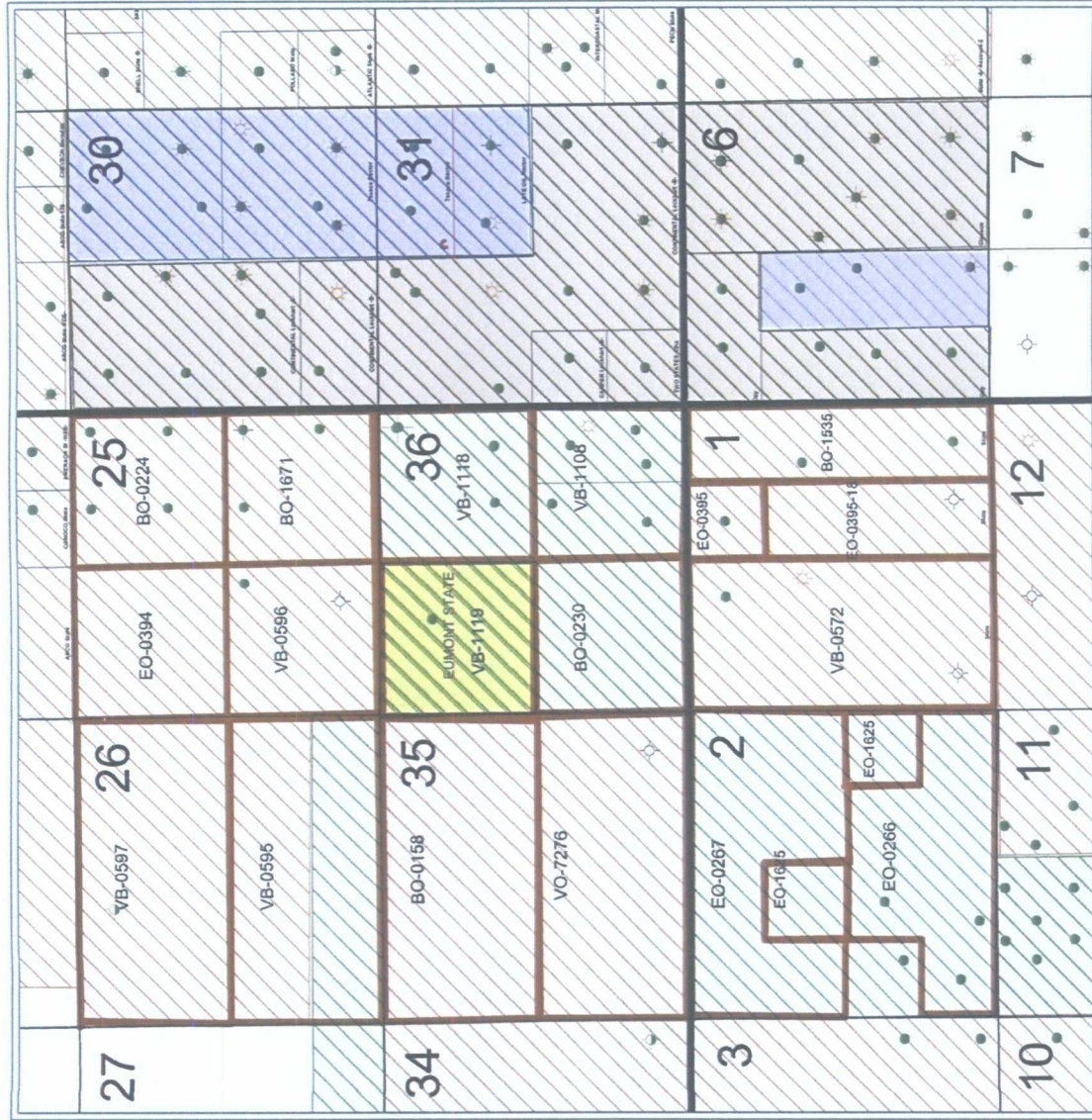
ISSUES & CONCERNS ADDRESSED:

- Protection of Correlative Rights
- Avoidance of Resource Waste
- Prevention of Reservoir Damage
- Economic Development of Pool Reserves

Oil (MBO) Gas (MMCF) Water (MBO) Completion Date

Eumont Area Lease Map

Eumont is located on New Mexico State Lands. Also, State Lands are offsetting the Eumont in all directions and there is no current production in adjacent 40 acre units.



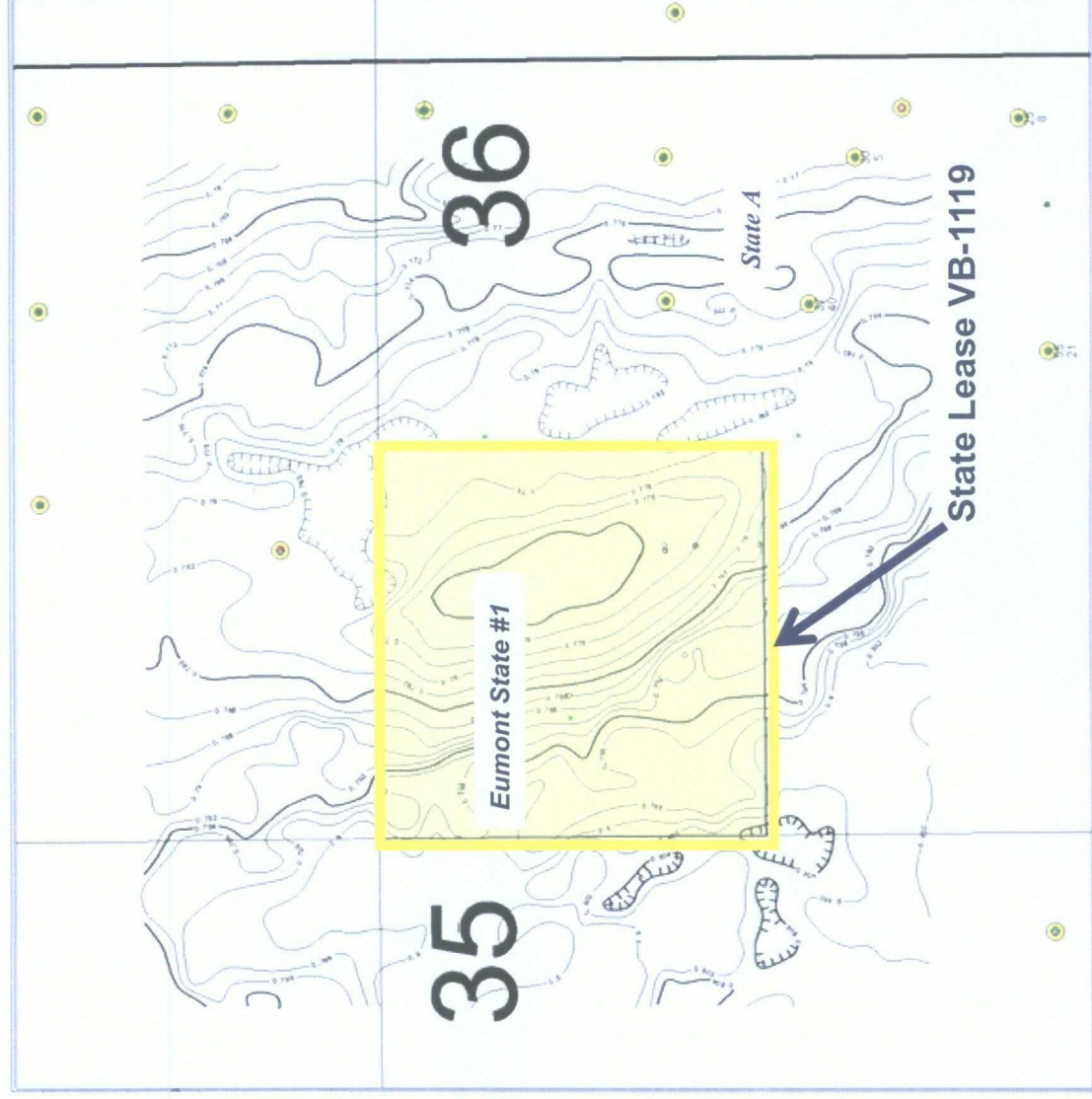
Legend

- Eumont State Lease
- Fee Land
- State Surface & Minerals
- State Minerals & Fee Surface
- Federal Minerals

**Kerns Petroleum, Inc.
Eumont State #1
API 30-025-38561
OCD Case 14160**



3-D Seismic Time Structure – Seven Rivers Reservoir entirely within Lease VB-1119 (NW/4)



Eumont State #1 Production Test

TIME	CSG PRES	TBG PRES	CHOKE	OIL/ HR	ACCUM H2O	ACCUM OIL
7:00 AM	560	180	20	14.2	0.0	136.3
8:00 AM	560	180	20	19.3	0.0	155.6
9:00 AM	560	180	20	16.5	0.0	172.1
10:00 AM	560	180	20	12.5	0.0	184.6
11:00 AM	580	180	20	13.8	0.0	198.4
12:00 PM	580	180	20	13.8	0.0	212.2
1:00 PM	600	180	20	15.1	0.0	227.3
2:00 PM	620	180	20	21.8	0.0	249.1
3:00 PM	630	180	18	14.1	0.0	263.2
4:00 PM	640	200	18	13.8	0.0	277.0
5:00 PM	650	200	18	13.9	0.0	290.9
6:00 PM	660	200	18	16.5	0.0	307.4
7:00 PM	660	200	18	13.8	0.0	321.2
8:00 PM	670	200	18	13.9	0.0	335.1
9:00 PM	675	210	18	13.8	0.0	348.9
10:00 PM	700	210	18	13.8	0.0	362.7
11:00 PM	700	210	18	11.0	0.0	373.7
12:00 AM	700	210	18	11.0	0.0	384.7
1:00 AM	700	210	18	11.1	0.0	395.8
2:00 AM	700	210	18	11.0	0.0	406.8
3:00 AM	700	210	18	8.3	0.0	415.1
4:00 AM	700	210	18	8.3	0.0	423.4
5:00 AM	700	210	20	8.3	0.0	431.7
6:00 AM	690	190	20	11.0	0.0	442.7
24-hour test: May 20, 2008				320.6		

24-Hour Production test on 5/20/08;
as report on OCD Form C-105.
Well flowed 320.6 BO.

Natural Gas production totaled 76
MCF for the 24-hour period for a
Gas-to-Oil ratio of 237 cu ft/barrel.

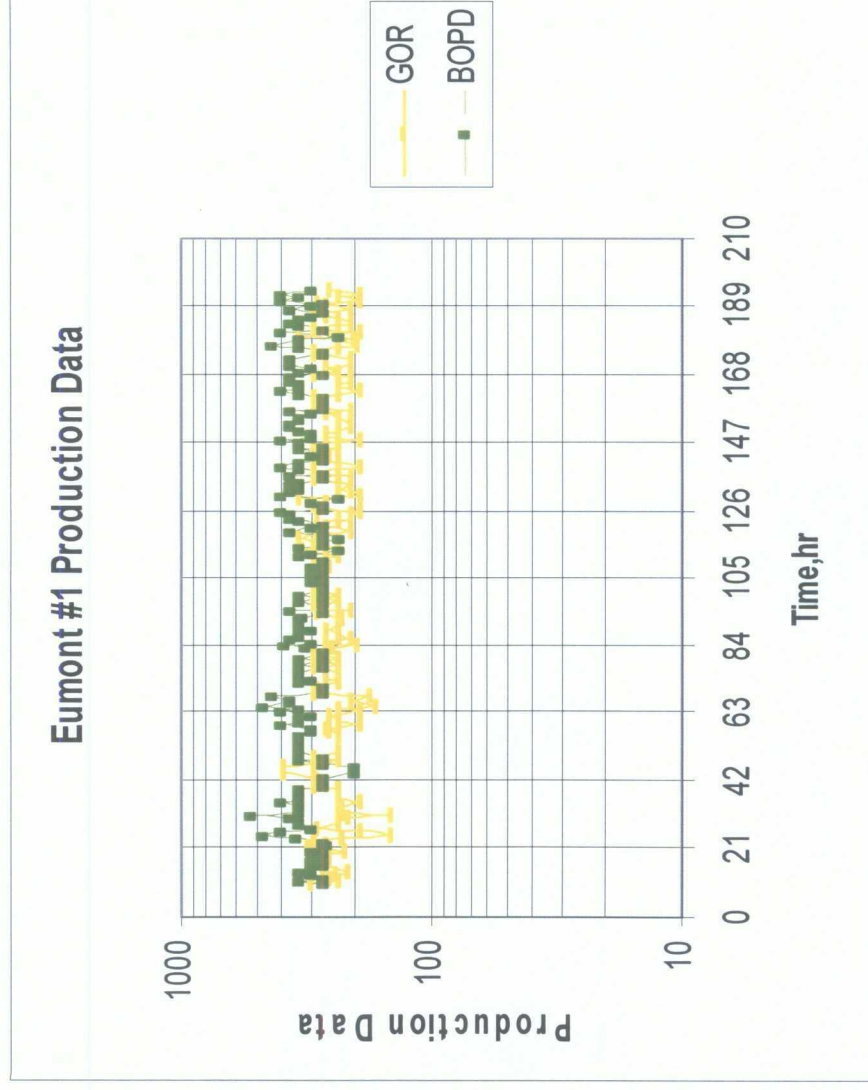
No water production was reported
during this test period.

Eumont State #1 Oil Rates

<u>Date</u>	Choke (/64")	Peak rate <u>BOPD</u>	Average <u>BOPD</u>
5/20/2008	18-20	523	320
5/21/2008	18-20	463	334
5/22/2008	19-20	384	317
5/23/2008	16-20	331	281
5/24/2008	18-20	398	323
5/25/2008	20	398	322
5/26/2008	20	432	323
5/27/2008	20	398	343

Production tests indicate that the Seven Rivers zone is capable of production in excess of 350 BOPD.

Avoidance of Resource Waste



- During the initial 9-day testing period, Seven Rivers reservoir averaged a 250 GOR at a 330 BOPD rate
- This reservoir has continued to average <300 GOR as we have reduced the oil rate
- This reservoir appears to be water-driven

Production Data vs. Time for Eumont State # 1

Prevention of Reservoir Damage

- At the initial testing rate of 320 BOPD, this reservoir only realized a reasonable 42% drawdown

Pressure Gradient [PSI/Ft]	Bottom Perforation Depth [Ft]	Fluid Level [Ft]	Specific Gravity of Water
0.434	4119	600	1.004

- No damage expected

Static BHP = (Bottom Perforation Depth-Fluid Level) x Pressure Gradient

Static BHP= (4119-600) Ft x .434 PSI/Ft = 1527 PSI

From Tubing Curves: Tubing Performance = 700 PSI

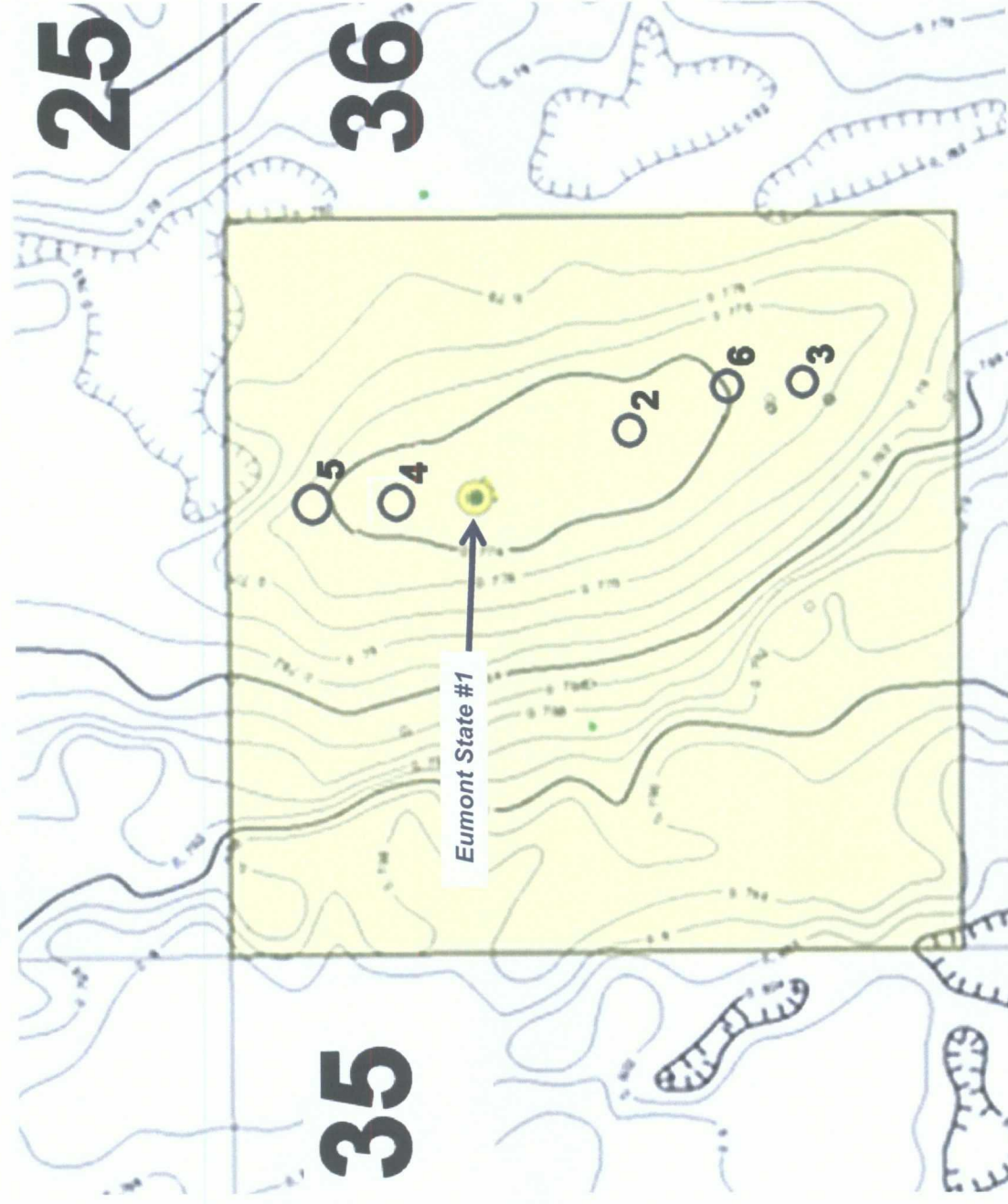
Flowing BHP = Tubing Performance + Tubing Pressure

Flowing BHP = 700 + 190 = 890 PSI

Drawdown = [(Static BHP – Flowing BHP) / Static BHP] x 100

Drawdown = [(1527 – 890)/ 1527] x 100 = 42%

Eumont State #1 & Approved Drilling Permits



Special Pool Rules - Oil Allowable

- Protection of Correlative Rights :
 - No direct offset producers
 - Offset by State of NM minerals
 - Productive Reservoir contained within NW/4 of Section 36
- Avoidance of Resource Waste :
 - Low Gas-Oil Ratio (200-250 cu-ft/bbl)
 - Apparent water drive mitigate waste of reserves
 - Low relative water production (average 1 BW per 100 BO)
- Prevention of Reservoir Damage :
 - Drawdown data indicates well may be produced at higher rate without damage
- Support Economic Development of Pool

Therefore :

- Request approval of Special Depth Bracket Allowable of 350 BOPD and Discovery Allowable