
SUMMARY OF TAX MATTERS

The basic tax considerations involved in investing in an oil and/or gas well with Laramie Oil & Gas, L.L.P. are as follows:

Dry Hole All dollars invested are written off as an ordinary loss against your ordinary income in the year incurred.

Producing Well Approximately 70% - 85% of your investment constitutes what are known as Intangible Drilling Costs (IDC's), and are written off your ordinary income in the year incurred.

Approximately ten to fifteen percent (10% - 15%) of the amount of your investment constitutes Tangible Drilling Costs (well equipment). This portion of your investment is depreciated over a seven-year period using the Accelerated Cost Recovery System (ACRS).

In some programs, approximately 5% - 15% of the investment amount is considered syndication fees (organizational costs, start-up costs, and due diligence), which you will amortize over a five-year period.

Depletion Allowance Currently, the allowance is 15%. This means that fifteen cents of every dollar is not taxable, and therefore, produces tax-sheltered income.

Example: \$100,000 Investment

\$70,000 IDC Deduction from Ordinary Income
\$30,000 Tangible Equipment - Depreciated

An investor in the 39% tax bracket would save \$39,000 in tax dollars ($.39 \times \$100,000 = \$39,000$). An actual out-of-pocket cost for the \$100,000 investment is \$61,000, therefore enhancing the Return on Investment (ROI).

Note: The above outline of tax benefits, while generally true for most investors in oil and gas drilling programs, is not intended as an exhaustive review of all tax consequences. Potential Investors are urged to consult with their tax advisor with respect to individual tax matters.