

W. SCOTT EPLEY, P.E.

Consulting Petroleum Engineer

500 West Texas Ave, Suite 1315

Midland, Texas 79701

P. O. Box 51107
Midland, Texas 79710-1107

Bus: (432) 682-6700

Fax: (432) 682-6700

June 14, 2005

Smith & Marrs, Inc.
601 W. Illinois
Hobbs, New Mexico 88242

Attention: Mr. Eddy Seay

Subject: Proposed Salt Water Disposal Operations Relative to the Smith & Marrs, Inc.
Operated Anderson #1 Well Located in Unit O, Section 8, Township 20 South,
Range 37 East in Lea County, New Mexico, Project 5.0609

Gentlemen:

At the request of Mr. Eddy Seay, I have studied the pertinent engineering parameters relative to the utilization of the Smith & Marrs, Inc. operated Anderson #1 for purposes of salt water disposal into the Lower San Andres and Paddock formations. In my study, I have determined the water volumes required to sweep (displace) the porosity intervals anticipated to be perforated in the Lower San Andres reservoir for a ¼ mile radius from the Anderson #1 wellbore. The assumptions and calculations utilized in making this determination are as follows:

1. Anticipated gross interval of Lower San Andres perforations from 4350 to 4803 feet in depth.
2. Reservoir height (net feet of porosity > 10%) = 435 feet based on well logs provided.
3. Reservoir porosity (weighted average) = 17.52% (neutron-density porosities)
4. All net porosity is 100% water saturated and is movable.
5. Although the distance to nearest salt water disposal wells are approximately ½ mile to the North and to the East, a ¼ mile radius was used for the reservoir area.
6. The current perforations in the Paddock formation would contribute to reservoir capacity, but was considered negligible to the capacity of the Lower San Andres thus not included in the calculations.

The above parameters yield a formation storage capacity of 74.3 million barrels for the area identified. Assuming an injection rate of 4000 barrels of water per day, the time required to sweep the formation would be in excess of 50 years. This compares favorably to the offset Rice Operating E M E Swd #5 M, # 8 G, and # 9 M wells located to the north and east. These offset wells are reportedly currently injecting on a vacuum into the Lower San Andres with cumulative injection volumes from January 1994 through October 2004 at 11.53 million, 4.72 million, and 18.96 million barrels of water, respectively, being a total of 35.21 million barrels of water injected in just under 11 years.

Exhibit 3

Smith & Marrs, Inc.

Case# 13511 June 16. 2005

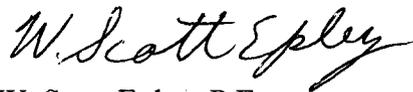
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Furthermore, I have studied the structural position of the Anderson #1 well relative to these Rice Operating swd wells based on well log correlations and analysis. Well logs from oil and gas wells offsetting the Rice Operating swd wells were utilized since the swd well logs apparently have not been released to the public. From this study, I have determined the Anderson #1 well is located structurally downdip of the E M E Swd # 5 M and # 8 G wells located to the north and relatively flat to the # 9 M well located to the east.

Based on 1) the distance from and structural position of the Anderson #1 relative to the offset Rice Operating swd wells, 2) the apparent injectivity performance of the Lower San Andres based on the recent injection cumulative volumes/rates/pressures of these offset swd wells, 3) and the large volumes and time required to sweep an area with a radius of half the distance to the nearest swd wells, it is my opinion the injection of water into the Anderson #1 will not have any impact on the injectivity of the offset swd wells.

It has been a pleasure in providing you with engineering services. If you have any questions or if I can be of further service, please give me a call.

Yours very truly,



W. Scott Epley, P.E.

