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January 26, 2006

Via Certified Mail

Maxxam Corporation
1330 Post Oak Boulevard, Suite 2000
Houston, TX 77056

Attn: Jay Lerner

RE: Two Proposed Fruitland Coal and Pictured Cliff Test Wells located in the
N/2 Sec. 06, T29N, R13W, San Juan County, New Mexico
Madrid 29-13-6 #111 (NE/4), Madrid 29-13-6 #112 (NW/4)

Dear Mr. Lerner:

As discussed many months ago, Synergy Operating, LLC is planning to drill preliminary, as many as two Fruitland Coal, Pictured Cliffs test wells in Section 6, T29N, R13W. Based upon our title examination, Maxxam Corporation's predecessor in interest is ~~through~~ McCulloch Oil Corporation (Maxxam). Being extra cautious we are notifying Maxxam of our drilling plans in that Maxxam may own an interest.

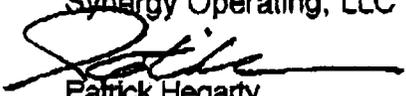
We are extending to Maxxam a number of options to consider:

- 1) Participate in the wells as a working interest owner, or
- 2) Farmout Maxxam's interest
- 3) Force Pool Maxxam's interest via a NMOCD Hearing.

The cost of participation will be based upon the number of net mineral acres Maxxam owns in the N/2 of Section 06, T29N, and R13W. The anticipated cost of drilling, completing and hooking up two Fruitland Coal/Pictured Cliffs test wells is approximately \$880,000 (well cost estimates are enclosed). If Maxxam elects to participate, we will send an AAPL Operating Agreement for Maxxam's consideration. If Maxxam elects to Farmout, Maxxam would retain a proportionately reduced 25% royalty less existing royalty burdens. As discussed Synergy will proceed with a Force Pool Hearing before the New Mexico Conservation Division, which should result in the assessment of a 256% penalty against Maxxam's working interest. What this means is that Synergy will be allowed to collect roughly 2.5 times what it cost to drill, complete and operate a well before Maxxam working interest would be recognized.

Your prompt attention to this matter will be appreciated.

Sincerely,
Synergy Operating, LLC


Patrick Hegarty
Principal

Enclosures

OIL CONSERVATION DIVISION
CASE NUMBER
EXHIBIT NUMBER 2