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November 16, 2005

Edwin Smith, Edwin Smith, LLC and Earnest Smith
40758 Jasper Drive
Kingsbury, CA 93631-1316

RE: Operating Agreement W/2 Sec. 8, T29N, R11W
First well: Duff 29-11-8#104, NW/4&
Second well: Duff 29-11-8#105, SW/4.

Dear Ed:

Good news; we hope to begin drilling the the Duff 29-11-8#104 in the NW/4 of section eight next month. Being that rigs are hard to obtain we have decided to consider drilling the second well in the SW/4 too. The name of this second well will be: Duff 29-11-8#105. Please note that the New Mexico Oil Conservation Division allows two wells in a 320/ac proration unit for the Fruitland Coal formation.

I previously mailed you an Operating Agreement necessary to drill a Fruitland Coal test wells in the W/2 Sec. 8, T29N, R11. You own 47% of the working interest in the SW/4, being 23.5% of the E/2, of the 320 acres required by the New Mexico Oil Conservation Division to drill a Fruitland Coal well.

As you know you can either: Participate, Go non-consent, Farmout, or Sell your interest in this proposed well. Participation will cost you roughly 23.5% of \$440,000 of anticipated well costs, or \$103,400.00 net. Being that you elected to participate in the first well we are assuming that you want to participate in the second well too.

Our main objective is to avoid having to initiate legal action before the New Mexico Oil Conservation Division necessary to drill this second well. As such, please return the signature page to the previously mailed Operating Agreement. If we do not receive the signature page to said Operating then we will have NO CHOICE but to initiate another Force Pool proceeding before the Oil Conservation Division.

Your attention to this matter will be appreciated.

Sincerely,
Synergy Operating, LLC

Patrick Hegarty
Principal

Enclosures

OIL CONSERVATION DIVISION

CASE NUMBER

EXHIBIT NUMBER 3

Authorization for Expenditure
Duff 29-11-8#105

10/10/05
Pg. 1 of 2

Well ID: NM 0105
Legal: T29N R11W Sec. 8: W/2
County: San Juan
State: NM
Total Depth: 1750'

Drill & Complete Fruitland Coal & Test PC

	Est. Dry Hole Cost	Est. Drilg/Completion Cost
FACILITY COSTS		
Buildings/Noise Abatement		<u>2,000.00</u>
TOTAL FACILITY COSTS		2,000.00
INTANGIBLE COMPLETION		
Completion Rig		20,000.00
Stimulation Treatments		100,000.00
Completion Fluids		9,000.00
Trucking	7,000.00	7,000.00
Equipment Rentals	3,000.00	3,000.00
Logging & Perforating		7,000.00
Contract Services	17,000.00	17,000.00
Completion Supervision		2,000.00
Production Casing & Accessories	22,000.00	22,000.00
Air Package & Mobilization	8,000.00	8,000.00
Portable Toilet	<u>500.00</u>	<u>500.00</u>
TOTAL INTANGIBLE COMPLETION	57,500.00	195,500.00
INTANGIBLE DRILLING		
Site Access-Survey	1,500.00	1,500.00
Site Access-Preparation & Acquisition	15,000.00	15,000.00
Rig Mobilization	7,000.00	7,000.00
Drilling-Footage	45,000.00	45,000.00
Mud & Additives	6,000.00	6,000.00
Water to Rig Pit	6,000.00	6,000.00
Equipment Rental (Surface)	3,000.00	3,000.00
Openhole Logging	5,000.00	5,000.00
Drilling Supervision	3,000.00	3,000.00
Cementing-Drilling		12,000.00
BOP Rental	3,000.00	3,000.00
Safety Svc/BOP Testing	1,000.00	1,000.00
Anchors Sets & Test	1,000.00	1,000.00
Casing Crew	<u>2,000.00</u>	<u>2,000.00</u>
TOTAL INTANGIBLE DRILLING	98,500.00	110,500.00

Authorization for Expenditure
Duff 29-11-8#105

Pg. 2 of 2

	Est. Dry Hole Cost	Est. Drilg/Completion Cost
TANGIBLE COMPLETION		
Wellhead		5,500.00
Tubing		<u>7,000.00</u>
TOTAL TANGIBLE COMPLETION		12,500.00
TANGIBLE DRILLING		
Surface Casing & Accessories	<u>6,000.00</u>	<u>6,000.00</u>
TOTAL TANGIBLE DRILLING	6,000.00	6,000.00
TANGIBLE EQUIPPING		
Sucker Rods & Accessories		3,000.00
Valves & Fittings		8,000.00
Downhole Pump		2,500.00
Pumpjack & Base		14,000.00
Flowline		10,000.00
Separators		11,000.00
Storage Tanks		10,000.00
Engines & Motors		6,000.00
Metering Equipment		<u>9,000.00</u>
TOTAL TANGIBLE EQUIPPING		73,500.00
SUB-TOTAL COST ESTIMATE	266,500.00	400,000.00
10% Contingency	<u>26,650.00</u>	<u>40,000.00</u>
TOTAL COST ESTIMATE	293,150.00	440,000.00

Accepted by:

Entity Name: _____

By: _____

Position: _____

Date: _____

Duff 29-11-8#104 well,

FEE - SW/4 Section 8, T29N, R11W
San Juan County, New Mexico

Heirs of Julia H. Keller

Annemarie Keller	6.25%
Margaret K. Dunn	6.25%

Heirs of May H. Kouns

Charla Varner.	3.125%
Robert E. Kouns,	3.125%
Kimberly Brautigam	3.125%
Jodie Yates	3.125%

Heirs of Jennie H. Hill

June Wamsley	12.5%
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Heirs of Margaret H. Jones

David F. Jones	12.5%
S- TOTAL	50.000%

Joseph C. Robbins	3.125%
Edwin & Earnest Smith	46.875
TOTAL	100.000%

NOW SYNERGY
25%

Synergy

[REDACTED]	
OIL CONFIRMATION [REDACTED]	
SIGNATURE NO.	2
CASE NO.	13663