

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:**

**APPLICATION OF SYNERGY OPERATING,
LLC FOR COMPULSORY POOLING AND A
NON-STANDARD GAS SPACING AND PRORATION
UNIT, SAN JUAN COUNTY, NEW MEXICO.**

Case No. 14,175

VERIFIED STATEMENT OF PATRICK HEGARTY

Patrick Hegarty, being duly sworn upon his oath, deposes and states:

1. I am a principal of and landman for Synergy Operating, LLC, and have personal knowledge of the matters stated herein.

2. Pursuant to Division Rule 1210.A(1)(b), the following information is submitted in support of the application:

(a) No opposition to this application is expected because the mineral interest owners being pooled have simply not responded to well or lease proposals, or have not been able to come to a decision.

(b) A plat outlining the spacing unit being pooled, and marking the location of the proposed well, is attached hereto as Exhibit A. Applicant seeks an order pooling all mineral interests from the surface to the base of the Fruitland Coal formation underlying Lots 1-4 and the E $\frac{1}{2}$ W $\frac{1}{2}$ (the W $\frac{1}{2}$) of Section 7, Township 29 North, Range 13 West, NMPM, to form a non-standard 179-acre gas spacing and proration unit for all pools or formations developed on 320 acre spacing within that vertical extent, including the Basin-Fruitland Coal Gas Pool.

The unit is to be dedicated to the MacDonald Orchard 29-13-7 Well No. 109, to be located at an orthodox location in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 7.

(c) The parties being pooled, their interests in the well unit, and their last known addresses, are as follows:

New Mexico State Highway Department
Department of Transportation
P.O. Box 1149

1.816 mineral acres

Oil Conservation Division
Case No. _____
Exhibit No. 1

Santa Fe, New Mexico 87504
Dwight D. Arthur Revocable Trust
P.O. Box 230
Kirtland, New Mexico 87417

11.350 mineral acres

- (d) Copies of the proposal letters sent to the uncommitted mineral interest owners are attached hereto as Exhibit B.
- (e) Synergy Operating, LLC has made a good faith effort to obtain the voluntary joinder of interest owners in the well.
- (f) Pursuant to Division rules, applicant requests that a 200% risk charge be assessed against non-consenting interest owners.
- (g) A copy of the Authority for Expenditure for the proposed well is attached hereto as Exhibit C. The drilling and completion costs set forth therein are fair and reasonable, and are comparable to those of other wells of this depth drilled in this area of San Juan County.
- (h) Overhead charges of \$5000/month for a drilling well, and \$500/month for a producing well, are requested. These rates are fair and reasonable, and are in line with rates charged by other operators in this area for wells of this depth. Synergy Operating, LLC requests that the rates be adjusted under the COPAS accounting procedure.
- (i) Applicant requests that it be designated operator of the well.
- (j) The non-standard unit is due to a variation in the government survey. The offset operators to this unit are as follows:

§6-29N-13W
XTO Energy Inc.
Suite 2000
810 Houston Street
Fort Worth, Texas 76102

Synergy Operating, LLC

§1-29N-14W
Dugan Production Corp.
P.O. Box 420
Farmington, New Mexico 87499

§12-29N-14W
Dugan Production Corp.

§13-29N-14W

DISTRICT I
1825 N. French Dr., Hobbs, N.M. 88240

DISTRICT II
1301 W. Grand Avenue, Artesia, N.M. 88210

DISTRICT III
1000 Rio Brazos Rd., Asteo, N.M. 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised October 12, 2005

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION
1220 South St. Francis Dr.
Santa Fe, NM 87505

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

¹ API Number		³ Pool Code 71629		⁶ Pool Name BASIN FRUITLAND COAL	
⁴ Property Code		⁵ Property Name MACDONALD ORCHARD 29-13-7			⁷ Well Number 109
⁸ OGRD No. 163458		⁹ Operator Name SYNERGY OPERATING, L.L.C.			¹⁰ Elevation 5270'

¹⁰ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
F	7	29N	13W		1916'	NORTH	718'	WEST	SAN JUAN

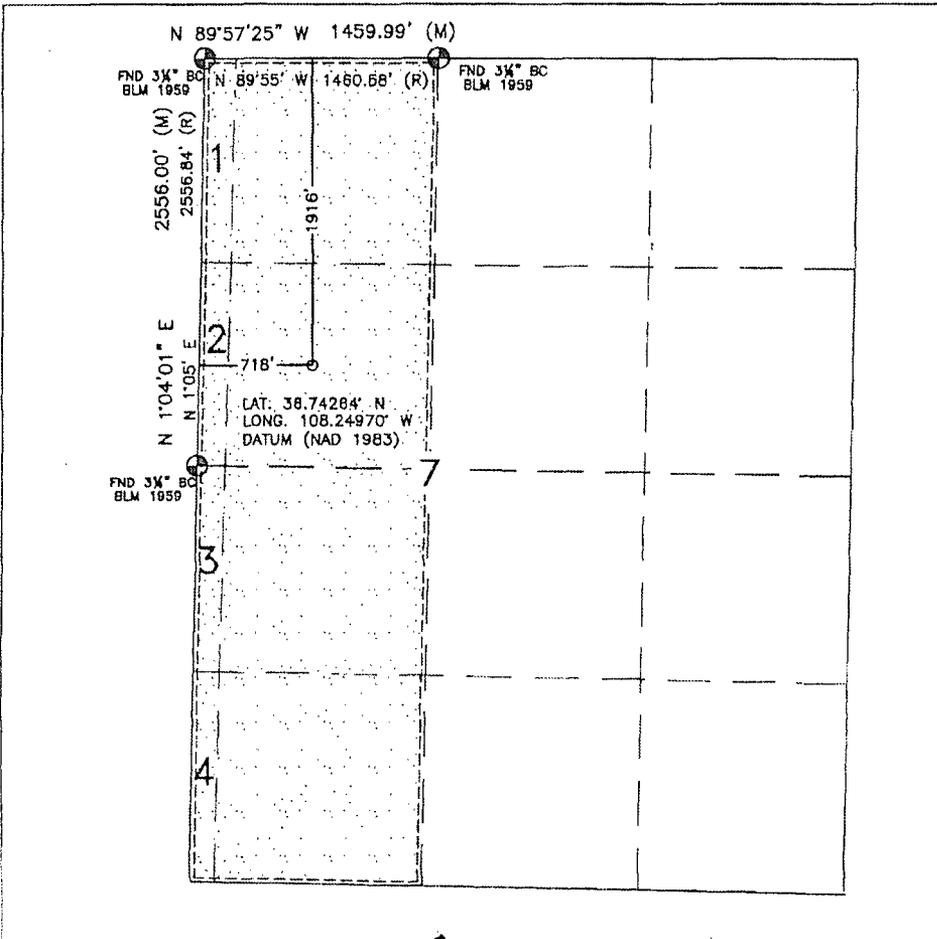
¹¹ Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

¹² Dedicated Acres 870.12 179 Acres - (W/2)	¹³ Joint or Infill	¹⁴ Consolidation Code	¹⁵ Order No.
---	-------------------------------	----------------------------------	-------------------------

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

16



¹⁷ OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner or a compulsory pooling order heretofore entered by the division.

Glenn O. Papp 6-14-08
Signature Date
GLEN O. PAPP
Printed Name

¹⁸ SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

JUNE 3, 2008
Date of Survey
Signature and Seal of Professional Surveyor:

David R. Russell
DAVID R. RUSSELL
NEW MEXICO
REGISTERED PROFESSIONAL LAND SURVEYOR
(1928)

DAVID RUSSELL
Certificate Number 10201

EXHIBIT **A**

T 29 N R 13 W SECTION 7

4/7/2008

STAND-UP PLAT

TRUNCATED SECTION - TOTAL ACRG IN SEC. 499 A

SHORT SECTION	LOT 1 4.64 A	NMNM 0468127 ELLIOT HALL HBP PREV. LS	NM117580 BAYLESS NWNWNE W2SWNWNE 15 A POWELL 25 A	POWERS 40 A
	NWNW-D	NENW-C 40.00 A	NWNE 40.00 A	NENE 40.00 A
	LOT 2 4.71 A	LOTS 5,7,8,11,12 FED NMNM117581 BAYLESS 24.03 A BLM - 15.97 AC.	POWERS 40 A	1/2 POWERS - 20 1/2 BLAKE HEIRS-20
	SWNW-E	SENW-F 40.00 A	SWNE-G 40.00 A	SENE-H 40.00 A
LOT 3 4.79 A	McDONALD FAMILY ETC.	POWERS 9.1275		
NWSW-L	NESW-K 40.00 A	NWSE-J 40.00 A	NESE-I 40.00 A	
LOT 4 4.86 A 2 Leases to Rich Exp 4/09	McDONALD FAMILY ETC.			
SWSW-M	SESW-N 40.00 A	SWSE-O 40.00 A	SESE-P 40.00 A	

E/2	320.0000
W/2	<u>179.0000</u>
TOTAL ACRES	499.0000

CURRENT LIST OF OWNERSHIP - 29/13 S 7 (THE LIST)		THE LIST		7/24/08		10:30		L 3 & 4			
SYNERGY LEASED ACREAGE IN 2 & 52	LEASE	NE	NW	NWSE	NESE	SWSE	E2 SW	W2SW	E/2	W/2	TOTAL
SYNERGY OIL AND GAS LEASES:											
CARLYLE L. DALLAS	6/28/2007	0.83334		0.39580					1.22914	0.00000	1.22914
JAMES W. DALLAS (AS HEIR)	6/28/2007	0.83333		0.39580					1.22913	0.00000	1.22913
JAMES W. DALLAS (PERSONAL)	6/28/2007			0.69800					0.69800	0.00000	0.69800
SHELTON B. DALLAS	3/26/2008	0.83333		0.39580					1.22913	0.00000	1.22913
ALBERT PORTER BLAKE (SON)	7/16/2007	2.50000		1.18750					3.68750	0.00000	3.68750
PAULA BRIGGS (DAUGHTER)	7/17/2007	2.50000		1.18750					3.68750	0.00000	3.68750
RUBY HICKS (DAUGHTER)	11/30/2007	2.50000		1.18750					3.68750	0.00000	3.68750
SUZANNE JOHNSON (James S.)	12/26/2007	1.25000		0.59375					1.84375	0.00000	1.84375
KAY ROTH (James Sylvester Blake)	12/28/2007	1.25000		0.59375					1.84375	0.00000	1.84375
JIM PHILLIPS (Incl Pat. Rod Neomi)	12/21/2007	2.50000		1.18750					3.68750	0.00000	3.68750
DANNY HAYES	12/27/2007	2.50000		0.93375					1.84375	0.00000	1.84375
DARYL HAYES	2/8/2008	1.25000		0.59375					1.84375	0.00000	1.84375
PATRICIA ROBESON (10 HEIRS OF ALBERTA B.)	3/15/2008	2.50000		1.18750					3.68750	0.00000	3.68750
NESE - P. E. STITTON CORP.	1/14/2008					8.36364					
JOHN W. NORTON	2/14/2008					2.78788					
BARBARA L. NORTON	2/15/2008					2.78788					
S. HOWARD NORTON III	2/19/2008					2.78788					
ROBERT WALKER (ARRINGTON)	3/11/2008					0.72727					
MARY LOU WOOLSEY et al (ARRINGTON)	4/24/2008					1.69695					
SCOTT LEE IBEY	5/9/2008					1.18787					
CHRISTINE L. TUMINARO	5/6/2008					0.33939					
TABITHA C. DAVIDSON	5/9/2008					0.16970					
JOHN BURTON ARRINGTON	5/6/2008					0.72727					
THOMAS ARRINGTON	4/29/2008					0.72727					
JEAN A. ASHCRAFT											
BRITA HARTT (from Nichols)	8/13/2007					13.25250					13.25250
HELEN WHITTEMORE	10/29/2007					6.70150					6.70150
PAUL W.M. FAUST	11/29/2007					3.35075					3.35075
Cheryl Keith	11/30/2007					3.35075					3.35075
GLBREATH	2/26/2008					3.38990					3.38990
SUN VILLAGE - WOODS	4/25/2008					0.20180					0.20180
SUN VILLAGE - KENNETT	5/1/2008					0.18490					0.18490
SUN VILL - ROBERT M. DAVIS et al	6/4/2008					0.18520					0.18520
SUN VILL - STEVEN & WENDEL VYN MERRELL	6/26/2008					0.18500					0.18500
SUN VILL-DANNY J. AND FLOSSIE JORDAN	6/14/2008					0.24200					0.24200
JAKS ENT.	12/21/2007					6.36100					6.36100
DEVILBLESS, NICK G.	11/16/2007										
ROBIN STRIMAN	6/4/2007					7.94140					7.94140
BATEMAN	5/31/2007					0.59000					0.59000
MIKE THOMASON - McDONALD HEIR	8/6/2007										
MRS. EVE THOMASON, TRUST (McD)	8/10/2007					1.31000					1.31000
MRS. EVE THOMASON, HEIR* (McD)	8/10/2007					1.32000					1.32000
MRS. ENID TIDWELL, HEIR* (McD)	8/7/2007					1.20610					1.20610
WEST APACHE MINI STORAGE	2/28/2008					1.20610					1.20610
SANDRA COLLINS, PERS. REP.	3/10/2008										
CLARA JO HOWARD	6/3/2008					1.00000					1.00000
MANN INC.	4/12/2008					1.41000					1.41000
R & C INVESTMENTS (LOTS 2 & 3)	4/12/2008					0.88760					0.88760
DON R. GRACE (LOTS 2 & 3)	6/17/2008					0.88760					0.88760
DELLE MARIE CASSELLBERRY, TRUSTEE	7/16/2008					1.01000					1.01000
MARY A. NEWLON	7/10/2008										
TOTAL L5D		20.00000	1.77520	22.15150	22.30300	39.81530	5.79580	2.86000	110.06560	71.58160	181.64720

* ALL ROYALTY 15%, UNLESS NOTED OTHERWISE

II - UNLEASED	RRR	1ST F.P. LTR	NE	NW	NWSE	NESE	SWSE	E2 SW	W2 SW	E/2	W/2	TOTAL
CITY OF FARMINGTON - W2SW 1.8176 ac			0.13970				0.35000		1.81760	0.35000	1.81760	2.16760
NM STATE HWAY DEPT						3.30300	1.70360		0.1124	3.44270	1.81600	5.25870
A. LORRAINE POWERS TRUST		Grn Card Rec d	124.86030		9.12750				133.98780	0.00000	0.00000	133.98780
JOHN L. PRUITT						4.93752				4.93752		4.93752
AUBREY M. PRUITT						4.93752				4.93752		4.93752
MARY ANN PARKER						4.93752				4.93752		4.93752
CLARENCE GWYN PRUITT		Grn Card Rec d				1.71771		11.35000		1.71771	0.00000	1.71771
DOVY ANN LEDFORD		Grn Card Rec d				1.71771				1.71771	0.00000	1.71771
LARRY LEE PRUITT		Grn Card Rec d				1.71771				1.71771	0.00000	1.71771
TIMOTHY RAY PRUITT		Grn Card Rec d				1.71771				1.71771	0.00000	1.71771
JAMES EDWARD PRUITT		Grn Card Rec d				1.10174				1.10174	0.00000	1.10174
BARBARA KRONIG		Grn Card Rec d				1.65261				1.65261	0.00000	1.65261
SANDRA WITTEN		Grn Card Rec d				1.10174				1.10174	0.00000	1.10174
CHERYL NORDS TRUM		Grn Card Rec d				0.55087				0.55087	0.00000	0.55087
SANDRA KAY PRUITT		RRR NOT SENT				1.82042				1.82042	0.00000	1.82042
LINDA GAY DUNCAN		RRR NOT SENT				1.82042				1.82042	0.00000	1.82042
DWIGHT D. ARTHUR, TRUSTEE		NOT SENT						11.35000		0.00000	11.35000	11.35000
JESS GARREN MARKLE		NOT SENT			0.69500					0.69500	0.00000	0.69500
SUN VILL-C. DENNIS BEASLEY et ux 326-274		NOT SENT				0.18470				0.18470	0.00000	0.18470
ARRINGTON FAMILY - REID ARRINGTON		LEASING				0.72720				0.72720	0.00000	0.72720
AMY MUHLBACH		LEASING				3.39400				3.39400	0.00000	3.39400
TOTAL UNLEASED			125.00000	0.00000	9.82250	4.12120	0.18470	33.38420	1.93000	172.51260	14.98360	187.49620
III - PARTICIPANTS:												
BAYLESS - FED. LS			15.00000	24.03000						15.00000	24.03000	39.03000
BLM UN LSD		???		15.97000						0.00000	15.97000	15.97000
ELLIOTT-HALL				44.64000						0.00000	44.64000	44.64000
McELVAIN FROM CITY - LOT 2				2.93480						0.00000	2.93480	2.93480
RICHARDSON LS - LOT 4									4.86000	0.00000	4.86000	4.86000
CLAYTON INVESTMENT COMPANY		NEED OP. AGR				0.82000				0.82000	0.00000	0.82000
TOTAL PARTICIPATING			15.00000	87.57480	0.00000	0.00000	0.00000	0.00000	4.86000	15.82000	92.43480	108.25480
IV - UNABLE TO LOCATE:												
ESTHER T. CHELTE		DECEASED				3.39360				3.39360	0.00000	3.39360
GEORGE ARTHUR ENGLAND						0.72720				0.72720	0.00000	0.72720
ANITA JEANNE MCCOLLUM						0.72720				0.72720	0.00000	0.72720
THELMA McFARLAND						0.72720				0.72720	0.00000	0.72720
RUTH PEARSON, DECEASED (SON GEORGE?)						8.00060				8.00060	0.00000	8.00060
E. B. & MARY RIPPETOE		UNKNOWN				4.50000				4.50000	0.00000	4.50000
ROSS HARWOOD		UNKNOWN				2.50000				2.50000	0.00000	2.50000
RAFAELITA CHAVEZ		UNKNOWN				1.02600				1.02600	0.00000	1.02600
TOTAL UNLOCATABLES						8.02600				21.60180		21.60180
TOTAL I, II, III, IV			160.00000	89.35000	40.00000	40.00000	40.00000	80.00000	9.65000	320.00000	179.00000	499.00000

(THE LIST - CURRENT OWNERSHIP 7-29-13)



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 566-3750

June 19, 2007

Dwight D. Arthur, Trustee
P. O. Box 230
Kirtland, NM 87417

505-598-5525

Re: Mineral Interest
Township 29 North, Range 13 West,
Section 7 - NESW - 11.35 Acres
San Juan County, NM

Dear Mr. Arthur:

Our review of the San Juan County records indicates that you own 11.35 Acres of Mineral Rights in Section 7, T29N, R13W, San Juan County, New Mexico.

Synergy Operating is interested in drilling a well in T29N, R13W - Section 7. We are offering an oil and gas lease for a three (3) year term, with a 15% royalty interest, and a bonus of \$150.00 per acre for a paid-up lease.

Enclosed please find three copies of an Oil and Gas Lease. If acceptable, sign in the presence of a Notary Public, returning two copies in the envelope provided. We will send a check to you for \$1,710.00, within ten days of receipt of the executed documents.

We have a Notary in our office; if you prefer, you may stop by our office here at the San Juan College Quality Center for Business, 5101 College Blvd. You can sign the lease here and have it notarized while we prepare the check for you.

Mr. Arthur, you requested an estimate of possible monthly income; there are so many variables, such as the price of gas, that it is hard to come up with a figure. It could take as much as two years for a coal-gas well to clean up and stop producing water. Assuming a well is capable of producing gas in payable quantities, which we cannot guarantee, you can hope to receive about \$100 to \$200.00 per month, if there is from 100 to 200 thousand cubic feet of gas per day produced.

If you have further questions, my direct line is 505-566-3702, my cell phone number is 505-793-7214. Patrick Hegarty, a Principal of Synergy Operating, can be reached at 334-4993.

Sincerely,

Synergy Operating, LLC

Dorothy Winer
Lease Analyst

EXHIBIT

Subject: Farmout Agreement
From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Date: November 21, 2007 10:48:24 AM MDT
To: Dwight Arthur <darthur6@msn.com>

Dwight:

We apparently got cut off during our last telephone conversation. I hope you received the telephone message that I left on your answering machine.

The attached Farmout Agreement is a very simple one that we have used often. Know that you do not Warrant Title, which will allow you to go ahead when you are ready and Quiet Title, your land, while allowing us to proceed with our well.

Feel free to call or drop by our office here at the Quality Business Center at San Juan College.

Here is my contact data if you need it.

Thanks for your attention to this matter
Happy Thanksgiving
Patrick

Patrick Hegarty
Principal
Synergy Operating, LLC
Direct: 505-334-4993
General: 505-325-5449
Fax: (505) 566-3750.
Cell: 505-330-6431
Email: patrick.hegarty@synergyoperating.com

Mailing Address:
P.O. Box 5513
Farmington, New Mexico 87499

Street Address:
Quality Business Center
5101 College Blvd.
Farmington, New Mexico 87402



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 566-3750

*598-5525-
dw left mag/22/08*

Dwight D. Arthur, Trustee
P. O. Box 230
Kirtland, NM 87417

November 21, 2007

Re: Letter Agreement – Surface to the base of Pictured Cliffs Formations
NESW Section 7 T29N, R11W
San Juan County, NM

Dear Mr. Arthur:

Pursuant to your request, Synergy Operating, LLC ("Synergy") hereby proposes to farm in your possible mineral interest ("your Minerals") involved in the production of hydrocarbons, subject to the following terms and conditions:

1. Hydrocarbon production from any formation from the surface of the earth to the base of the Pictured Cliffs formations will be subject to this Agreement. If well difficulties are encountered which in Synergy's sole opinion, make it impracticable to continue production, the well may be plugged and abandoned and a new well may be commenced within one hundred and twenty (120) days following the plugging and abandonment procedure of the original well that encountered difficulties at a location in the same section as the abandoned well.

2. All operations conducted hereunder will be at no cost, risk, or expense to you. Further, Synergy agrees to assume all the liabilities associated with any operation associated with any well involving your Minerals under this Letter Agreement.

3. Upon the payment of royalty for your share of production of hydrocarbons, Synergy will earn an Assignment of all of your right, title, and interest in and to the operating rights from the surface of the earth to the base of the Pictured Cliffs formation associated with your Minerals, ("Operating Rights") subject to you retaining an inclusive 25.00% royalty interest delivering to Synergy a seventy five percent (75%) net revenue interest.

After the establishment of production of hydrocarbons which result in your receipt of royalty, you agree to return, within thirty days from receipt, two fully executed copies of one assignment of the Operating Rights to your Minerals covering those formations from the surface of the earth to the base of the Pictured Cliffs formation. You will retain an inclusive twenty five percent (25%) royalty, delivering to Synergy a seventy five percent (75%) net revenue interest, subject to proportionate reduction.

November 21, 2007
Letter Agreement

4. Concerning proportionate reduction; a Spacing Unit for a well drilled under this Letter Agreement will include lands other than your Minerals and as such your royalty interest will be the proportionate part respectively equal to the ratio between the number of acres that your Minerals contribute to the total number of acres in the Spacing Unit. Spacing Unit means the number of acres allocated to the test well by the New Mexico Oil Conservation Division, being the regulatory agency having jurisdictional power.

5. You DO NOT warrant title to your Minerals in any way.

Please review this Letter Agreement and if acceptable, please execute in the space provided below returning one original copy in the self-addressed envelope.

Thank you for your consideration of this matter.

Sincerely,
Synergy Operating, LLC



Patrick Hegarty
Principal

AGREED TO AND ACCEPTED this ____ day of _____ 2007

By: Dwight D. Arthur, Trustee

Name of Trust: _____

Dwight D. Arthur, Trustee

505-588-5525

EXHIBIT "A"

Page 1 of 2

LEGAL DESCRIPTION

TOWNSHIP 29 NORTH, RANGE 13 WEST - SECTION 7 - SW/4

TRACT 1.

11.35 acre tract of land, more or less, in Section Seven (7), Township Twenty Nine (29) North, Range Thirteen (13) West, N. M. P. M. Farmington, San Juan County, New Mexico more fully described as follows:

BEGINNING S 66°34'57" E 507.34 feet from the West Quarter (¼) Corner of said Section 7, said point of beginning being the SW corner of City of Farmington Tract and East right-of-way line of New Mexico Highway 170;

THENCE S 61°17'34" E 355.76 feet along said City Tract;

THENCE S 28°42'26" W 75.00 feet along said City Tract;

THENCE S 61°17'34" E 160.00 feet along said City Tract;

THENCE N 28°42'26" E 75.00 feet along said City Tract;

THENCE S 61°17'34" E 124.26 feet along said City Tract;

THENCE N 28°42'26" E 25.00 feet along said City Tract to South line of Grace Tract;

THENCE S 61°17'34" E 79.62 feet along said South line to center of La Plata River;

THENCE S 02°30'08" E 204.57 feet along center of said River, along East line of Noyes Tract;

THENCE S 37°58'45" W 97.45 feet along center of said River, along East line of Noyes Tract to the Northwest corner of the R. Taylor Tract;

THENCE S 65°09'21" W 240.57 feet along East line of R. Taylor Tract to New Mexico Highway right-of-way;

THENCE N 33°59'41" W 21.16 feet along said right-of-way;

THENCE S 56°00'19" W 338.34 feet along said right-of-way;

EXHIBIT "A"

Page 2 of 2

LEGAL DESCRIPTION

TOWNSHIP 29 NORTH, RANGE 13 WEST - SECTION 7 - SW/4

TRACT 1 (Continued)

THENCE N 62°59'41" W 100.00 feet along said right-of-way;

THENCE S 56°00'19" W 100.00 feet along said right-of-way to North line of U. S. Highway 64 (Old Highway 550);

THENCE Northwesterly along said right-of-way 153.09 feet along a curve to the left whose radius is 3014.79 feet with a chord of N 65°23'47" W 153.07 feet to East right-of-way of New Mexico Highway 170;

THENCE N 08°18'08" W 109.15 feet along said East right-of-way;

THENCE N 13°53'56" E 35.54 feet along said East right-of-way;

THENCE N 00°52'20" W 116.98 feet along said East right-of-way;

THENCE N 15°59'37" E 137.44 feet along said East right-of-way;

THENCE Northeasterly along said right-of-way 478.52 feet along a curve to the left whose radius is 1819.86 feet with a chord of N 24°53'20" E 477.14 feet to the point of beginning;

The tract as described contains 11.35 acres, more or less;

Together with all improvements situate thereon;

Together with any and all water rights appurtenant to said property which have not been heretofore severed from the land;

Together with all oil, gas or other minerals which have not been heretofore excepted, severed or reserved from said land;

Together with all sand, gravel or other similar interest appurtenant to said land;

Subject to easements, exceptions and reservations which are of record or which are apparent upon the ground;

TRACT 2.

All of grantor's right, title, and interest in and to any and all real property which Grantor's may own, if any, in the land which lies between the east line of the tract of land described in Option To Purchase Real Property dated February 18, 1994 recorded in Book 1178 at Page 640 of the Records of the County Clerk of San Juan County, New Mexico on March 01, 1994 and the center line of the La Plata River.

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: 9/2 6, 29/13
Date: January 23, 2008 3:51:50 PM MST
To: Dwight Arthur <darthur6@msn.com>
Cc: Glen Papp <gpapp@synergyoperating.com>, Tom Mullins <tom.mullins@synergyoperating.com>



Dwight:

I will check to see if we have a water sample from our wells in section 6 of 29/13.

If the state will give you approval to take the water from our well in section 7 we will provide you with water barring any unforeseen problems. As mentioned one barrel equates to 42 gallons. Can you estimate how much water you will need?

We can include a provision in the O&G gas lease for this purpose.

Be sure to talk to Bill Erenbach at the State Engineers office before we take the water sample. It could be that the state will not allow this, but I am hopeful they will in that it truly would be a win win arrangement.

Patrick

From: "Dwight Arthur" <darthur6@men.com>
Subject: RE: DWIGHT ARTHER
Date: March 12, 2008 11:03:24 AM MDT
To: "Patrick Hegarty" <patrick.hegarty@synergyoperating.com>

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the set back requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty (mailto:patrick.hegarty@synergyoperating.com)
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHER

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 588-5526.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Re: DWIGHT ARTHUR
Date: March 12, 2008 11:18:51 AM MDT
To: "Dwight Arthur" <darthur6@msn.com>
Cc: Glen Papp <gpapp@synergyoperating.com>



Dwight:

I am forwarding your email on to my partner and Synergy's Operations Engineer in that he handles well placements. Glen Papp will be in touch with you. I am listing your phone number for this purpose (598-5525).

Patrick

On Mar 12, 2008, at 11:00 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the setback requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT, ARTHUR

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: **Re: DWIGHT ARTHUR**
Date: March 14, 2008 4:06:00 PM MDT
To: Dwight Arthur <darthur6@msn.com>
Cc: Glen Papp <gpapp@synergyoperating.com>



Dwight:

We met this morning concerning drilling a well on the southern end of your property. Our Engineer, Glen Papp that handles operations said that we would use more of your land building a road to the southern location than if the well were placed on the north end of your property next to the City's pump station. Being that your land around the City's pump station is where you might some day want to build on and a well site would take up most of your property in that you said the city would not allow you to build closer than 300 feet from the well pad, due to their regulations. It appears that drilling on your land is not a practical option?

Let me know if the above assessment is not correct.

I will call you next Friday to check up on the status of our Farmout Agreement.

Best Regards,
Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the set back requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHUR

Glen,

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 508-5525.

Patrick

From: "Dwight Arthur" <darthur6@msn.com>
Subject: RE: DWIGHT ARTHUR
Date: March 14, 2008 7:44:02 PM MDT
To: "Patrick Hegarty" <patrick.hegarty@synergyoperating.com>

Patrick:

I am inclined to agree that locating a well on my land is not feasible. I am really not interested. I will try to get my form of leases to you before next Friday.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Friday, March 14, 2008 4:08 PM
To: Dwight Arthur
Cc: Glen Papp
Subject: Re: DWIGHT ARTHUR

Dwight:

We met this morning concerning drilling a well on the southern end of your property. Our Engineer, Glen Papp that handles operations said that we would use more of your land building a road to the southern location than if the well were placed on the north end of your property next to the City's pump station. Being that your land around the City's pump station is where you might some day want to build on and a well site would take up most of your property in that you said the city would not allow you to build closer than 300 feet from the well pad, due to their regulations. It appears that drilling on your land is not a practical option?

Let me know if the above assessment is not correct.

I will call you next Friday to check up on the status of our Farmout Agreement.

Best Regards,
Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land.

In other words I might lease a part of my land to enable you to meet the setback requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHUR

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Re: DWIGHT ARTHUR
Date: March 17, 2008 6:12:14 PM MDT
To: Dwight Arthur <darthur8@msn.com>



Dwight:

Sounds good. We looked again at maps of your property and it really does not make sense to locate a well on your land if you want to build a home there some day.

Best Regards,
Patrick

On Mar 14, 2008, at 7:44 PM, Dwight Arthur wrote:

Patrick:

I am inclined to agree that locating a well on my land is not feasible. I am really not interested. I will try to get my form of leases to you before next Friday.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Friday, March 14, 2008 4:08 PM
To: Dwight Arthur
Cc: Glen Papp
Subject: Re: DWIGHT ARTHUR

Dwight:

We met this morning concerning drilling a well on the southern end of your property. Our Engineer, Glen Papp that handles operations said that we would use more of your land building a road to the southern location than if the well were placed on the north end of your property next to the City's pump station. Being that your land around the City's pump station is where you might some day want to build on and a well site would take up most of your property in that you said the city would not allow you to build closer than 300 feet from the well pad, due to their regulations. It appears that drilling on your land is not a practical option?

Let me know if the above assessment is not correct.

I will call you next Friday to check up on the status of our Farmout Agreement.

Best Regards,
Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land.

In other words I might lease a part of my land to enable you to meet the setback requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHUR

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Accounting Practices anticipated for MacDonald Orchard well
Date: April 17, 2008 4:47:00 PM MDT
To: Dwight Arthur <darthur6@msn.com>
Cc: Ricki Daly <rdaly@synergyoperating.com>
> 1 Attachment, 583 KB



Dwight Arthur:

Attached is a few Accounting sheets that spell out all that is charges against a royalty interest. One exception note noted on these examples is charges for water. Fruitland Coal wells take as long as two years to de-water. Typically an Operator will charge this expense against all interest owners in the same fashion as a gas transportation charge.

Best Regards,
Patrick



[Dwight Arth...pdf \(583 KB\)](#)

Owner's Distribution Statement

Page: 1

Synergy Operating, LLC
P.O. Box 5513
Farmington, NM 874995513

1041

Statement Date: 03/06/08

Run No: 032/2008

Below Minimum- Carried Forward: \$25.85

NM0027	Sunray B #4	Prod Prd
Production Income		
Wasatch Energy	1,790.00 MCF @ \$7.36867	\$13,189.93 X (0.2500000%) 2008/01 32.98
Gas Severance Tax	\$13,189.93	8.9544% \$-1,097.70 X (0.2500000%) 2008/01 -2.74
Field Trans/Low	OTH	\$-931.11 X (0.2500000%) 2008/01 -2.33
Total Income		<u>\$11,161.12</u> 27.91
Well Expenses		
02/29/08 ORRI Gas Gathering Charges		\$154.12 X (0.2857140%) 2008/01 0.44
Total Well Expenses		<u>\$593.69</u> 0.44
Your Royalty Interest This Well		(A - B) = (C) 27.47
Tax Withholding Amount Deducted This Period		
		1.62
Your Net Interest This Run (Below Minimum Check - Placed In Suspense)		
		25.85
Your Net Balance After This Run (Below Minimum Amount - Placed In Suspense)		
		25.85
Suspense Balance (Before This Run)		
		58.36
Suspense Balance (After This Run)		
		84.21

Owner's Distribution Statement

Page: 1

Synergy Operating, LLC
P.O. Box 5513
Farmington, NM 874995513

1042



Statement Date: 03/06/08
 Run No 032/2008
 Check Amount: \$1271.30

NM0004	Federal #1 (FTC)				Prod Prd	
Production Income						
Wasatch Energy		209.00 MCF	@ \$6.08291	\$1,271.33 X (5.9361559%)	2008/01	75.47
Gas Severance Tax	\$1,271.33		9.1787%	\$-106.71 X (5.9361559%)	2008/01	-6.34
Field Trans/Low			OTH	\$-108.72 X (5.9361559%)	2008/01	-6.45
Total Income				<u>\$1,055.90</u>		<u>62.68</u>
Well Expenses						
02/29/08 ORRI Gas Gathering Charges				\$18.46 X (5.9361559%)	2008/01	1.10
Total Well Expenses				<u>\$18.46</u>		<u>1.10</u>
Your Royalty Interest This Well					(A - B) = (C)	<u>61.58</u>
NM0005 Crawford 29-12-24 #103						
Production Income						
Wasatch Energy		493.00 MCF	@ \$6.09142	\$3,003.07 X (12.4535250%)	2008/01	373.99
Gas Severance Tax	\$3,003.07		9.1787%	\$-252.10 X (12.4535250%)	2008/01	-31.40
Field Trans/Low	12W		OTH	\$-258.44 X (12.4535250%)	2008/01	-31.84
Total Income				<u>\$2,494.53</u>		<u>310.65</u>
Well Expenses						
02/29/08 ORRI Gas Gathering Charges				\$43.54 X (12.4535250%)	2008/01	5.42
Total Well Expenses				<u>\$43.54</u>		<u>5.42</u>
Your Royalty Interest This Well					(A - B) = (C)	<u>305.23</u>
NM0020 Federal 29-12-24 #101						
Production Income						
Wasatch Energy		779.00 MCF	@ \$6.05100	\$4,713.73 X (5.9361559%)	2008/01	279.81
Gas Severance Tax	\$4,713.73		9.1787%	\$-398.47 X (5.9361559%)	2008/01	-23.48
Field Trans/Low			OTH	\$-405.21 X (5.9361559%)	2008/01	-24.05
Total Income				<u>\$3,913.05</u>		<u>232.28</u>
Well Expenses						
02/29/08 ORRI Gas Gathering Charges				\$68.87 X (5.9361559%)	2008/01	4.09
Total Well Expenses				<u>\$68.87</u>		<u>4.09</u>
Your Royalty Interest This Well					(A - B) = (C)	<u>228.19</u>
NM0021 Crawford 29-12-24 #102						
Production Income						
Wasatch Energy		811.00 MCF	@ \$6.47399	\$5,250.41 X (12.4535250%)	2008/01	653.86
Gas Severance Tax	\$5,250.41		9.1787%	\$-443.22 X (12.4535250%)	2008/01	-55.20
Field Trans/Low			OTH	\$-421.62 X (12.4635250%)	2008/01	-52.51
Total Income				<u>\$4,385.57</u>		<u>546.15</u>
Well Expenses						
02/29/08 ORRI Gas Gathering Charges				\$71.06 X (12.4535250%)	2008/01	8.85
Total Well Expenses				<u>\$71.06</u>		<u>8.85</u>
Your Royalty Interest This Well					(A - B) = (C)	<u>537.30</u>



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 566-3750

July 16, 2008

Nancy J. Arthur, Trustee
THE DWIGHT D. ARTHUR REVOCABLE TRUST
P. O. Box 230
Kirtland, NM 87417

Re: Offer To Lease Your Trust's Minerals
Township 29 North, Range 13 West,
Section 7 - NESW San Juan County, NM

Dear Mrs. Arthur:

Your Trust owns 11.35 Acres of minerals in Section 7, T29N, R13W, San Juan County, New Mexico. See attached Exhibit "A".

Synergy Operating will be drilling a gas well that will include your Trust's minerals and are offering the Trust \$1,710.00 for an oil and gas lease with a three-year term that includes a 15% royalty obligation.

Enclosed please find three copies of our oil and gas Lease. Please sign in the presence of a Notary Public, returning two copies in the envelope provided. We will send the Trust a check for \$1,710.00 within ten days of our receipt of the signed oil and gas lease.

If you prefer, you may stop by our office for we have a Notary who can acknowledge your signature. Our address is 3510 Messina Drive, which is directly across the street from San Juan College off of college boulevard. Feel free to call my cell number: 303-6431 for further directions. Or, if preferred, we can send a Notary to your house to deliver you the check and pick up the oil and gas lease. Whatever you want to do in this regard is fine with us.

Sincerely,
Synergy Operating, LLC



Patrick Hegarty

Arthur OGL Ltr



Synergy Operating, LLC

PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 566-3750

June 19, 2007

Dwight D. Arthur, Trustee
P. O. Box 230
Kirtland, NM 87417

505-598-5525

Re: Mineral Interest
Township 29 North, Range 13 West,
Section 7 - NESW - 11.35 Acres
San Juan County, NM

Dear Mr. Arthur:

Our review of the San Juan County records indicates that you own 11.35 Acres of Mineral Rights in Section 7, T29N, R13W, San Juan County, New Mexico.

Synergy Operating is interested in drilling a well in T29N, R13W - Section 7. We are offering an oil and gas lease for a three (3) year term, with a 15% royalty interest, and a bonus of \$150.00 per acre for a paid-up lease.

Enclosed please find three copies of an Oil and Gas Lease. If acceptable, sign in the presence of a Notary Public, returning two copies in the envelope provided. We will send a check to you for \$1,710.00, within ten days of receipt of the executed documents.

We have a Notary in our office; if you prefer, you may stop by our office here at the San Juan College Quality Center for Business, 5101 College Blvd. You can sign the lease here and have it notarized while we prepare the check for you.

Mr. Arthur, you requested an estimate of possible monthly income; there are so many variables, such as the price of gas, that it is hard to come up with a figure. It could take as much as two years for a coal-gas well to clean up and stop producing water. Assuming a well is capable of producing gas in payable quantities, which we cannot guarantee, you can hope to receive about \$100 to \$200.00 per month, if there is from 100 to 200 thousand cubic feet of gas per day produced.

If you have further questions, my direct line is 505-566-3702, my cell phone number is 505-793-7214. Patrick Hegarty, a Principal of Synergy Operating, can be reached at 334-4993.

Sincerely,

Synergy Operating, LLC

Dorothy Winer
Lease Analyst

Subject: Farmout Agreement
From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Date: November 21, 2007 10:48:24 AM MDT
To: Dwight Arthur <darthur6@msn.com>

Dwight:

We apparently got cut off during our last telephone conversation. I hope you received the telephone message that I left on your answering machine.

The attached Farmout Agreement is a very simple one that we have used often. Know that you do not Warrant Title, which will allow you to go ahead when you are ready and Quiet Title, your land, while allowing us to proceed with our well.

Feel free to call or drop by our office here at the Quality Business Center at San Juan College.

Here is my contact data if you need it.

Thanks for your attention to this matter
Happy Thanksgiving
Patrick

Patrick Hegarty
Principal
Synergy Operating, LLC
Direct: 505-334-4993
General: 505-325-5449
Fax: (505) 566-3750.
Cell: 505-330-6431
Email: patrick.hegarty@synergyoperating.com

Mailing Address:
P.O. Box 5513
Farmington, New Mexico 87499

Street Address:
Quality Business Center
5101 College Blvd.
Farmington, New Mexico 87402



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 566-3750

*598-5525-
dw left mag/12/08*

Dwight D. Arthur, Trustee
P. O. Box 230
Kirtland, NM 87417

November 21, 2007

Re: Letter Agreement – Surface to the base of Pictured Cliffs Formations
NESW Section 7 T29N, R11W
San Juan County, NM

Dear Mr. Arthur:

Pursuant to your request, Synergy Operating, LLC ("Synergy") hereby proposes to farm in your possible mineral interest ("your Minerals") involved in the production of hydrocarbons, subject to the following terms and conditions:

1. Hydrocarbon production from any formation from the surface of the earth to the base of the Pictured Cliffs formations will be subject to this Agreement. If well difficulties are encountered which in Synergy's sole opinion, make it impracticable to continue production, the well may be plugged and abandoned and a new well may be commenced within one hundred and twenty (120) days following the plugging and abandonment procedure of the original well that encountered difficulties at a location in the same section as the abandoned well.
2. All operations conducted hereunder will be at no cost, risk, or expense to you. Further, Synergy agrees to assume all the liabilities associated with any operation associated with any well involving your Minerals under this Letter Agreement.
3. Upon the payment of royalty for your share of production of hydrocarbons, Synergy will earn an Assignment of all of your right, title, and interest in and to the operating rights from the surface of the earth to the base of the Pictured Cliffs formation associated with your Minerals, ("Operating Rights") subject to you retaining an inclusive 25.00% royalty interest delivering to Synergy a seventy five percent (75%) net revenue interest.

After the establishment of production of hydrocarbons which result in your receipt of royalty, you agree to return, within thirty days from receipt, two fully executed copies of one assignment of the Operating Rights to your Minerals covering those formations from the surface of the earth to the base of the Pictured Cliffs formation. You will retain an inclusive twenty five percent (25%) royalty, delivering to Synergy a seventy five percent (75%) net revenue interest, subject to proportionate reduction.

November 21, 2007
Letter Agreement

4. Concerning proportionate reduction; a Spacing Unit for a well drilled under this Letter Agreement will include lands other than your Minerals and as such your royalty interest will be the proportionate part respectively equal to the ratio between the number of acres that your Minerals contribute to the total number of acres in the Spacing Unit. Spacing Unit means the number of acres allocated to the test well by the New Mexico Oil Conservation Division, being the regulatory agency having jurisdictional power.

5. You DO NOT warrant title to your Minerals in any way.

Please review this Letter Agreement and if acceptable, please execute in the space provided below returning one original copy in the self-addressed envelope.

Thank you for your consideration of this matter.

Sincerely,
Synergy Operating, LLC



Patrick Hegarty
Principal

AGREED TO AND ACCEPTED this ____ day of _____ 2007

By: Dwight D. Arthur, Trustee

Name of Trust: _____

Dwight D. Arthur, Trustee

505-588-5525

EXHIBIT "A"

Page 1 of 2

LEGAL DESCRIPTION

TOWNSHIP 29 NORTH, RANGE 13 WEST - SECTION 7 - SW/4

TRACT 1.

11.35 acre tract of land, more or less, in Section Seven (7), Township Twenty Nine (29) North, Range Thirteen (13) West, N. M. P. M. Farmington, San Juan County, New Mexico more fully described as follows:

BEGINNING S 66°34'57" E 507.34 feet from the West Quarter (¼) Corner of said Section 7, said point of beginning being the SW corner of City of Farmington Tract and East right-of-way line of New Mexico Highway 170;

THENCE S 61°17'34" E 355.76 feet along said City Tract;

THENCE S 28°42'26" W 75.00 feet along said City Tract;

THENCE S 61°17'34" E 160.00 feet along said City Tract;

THENCE N 28°42'26" E 75.00 feet along said City Tract;

THENCE S 61°17'34" E 124.26 feet along said City Tract;

THENCE N 28°42'26" E 25.00 feet along said City Tract to South line of Grace Tract;

THENCE S 61°17'34" E 79.62 feet along said South line to center of La Plata River;

THENCE S 02°30'08" E 204.57 feet along center of said River, along East line of Noyes Tract;

THENCE S 37°58'45" W 97.45 feet along center of said River, along East line of Noyes Tract to the Northwest corner of the R. Taylor Tract;

THENCE S 65°09'21" W 240.57 feet along East line of R. Taylor Tract to New Mexico Highway right-of-way;

THENCE N 33°59'41" W 21.16 feet along said right-of-way;

THENCE S 56°00'19" W 338.34 feet along said right-of-way;

EXHIBIT "A"

Page 2 of 2

LEGAL DESCRIPTION

TOWNSHIP 29 NORTH, RANGE 13 WEST - SECTION 7 - SW/4

TRACT 1 (Continued)

THENCE N 62°59'41" W 100.00 feet along said right-of-way;

THENCE S 56°00'19" W 100.00 feet along said right-of-way to North line of U. S. Highway 64 (Old Highway 550);

THENCE Northwesterly along said right-of-way 153.09 feet along a curve to the left whose radius is 3014.79 feet with a chord of N 65°23'47" W 153.07 feet to East right-of-way of New Mexico Highway 170;

THENCE N 08°18'08" W 109.15 feet along said East right-of-way;

THENCE N 13°53'56" E 35.54 feet along said East right-of-way;

THENCE N 00°52'20" W 116.98 feet along said East right-of-way;

THENCE N 15°59'37" E 137.44 feet along said East right-of-way;

THENCE Northeasterly along said right-of-way 478.52 feet along a curve to the left whose radius is 1819.86 feet with a chord of N 24°53'20" E 477.14 feet to the point of beginning;

The tract as described contains 11.35 acres, more or less;

Together with all improvements situate thereon;

Together with any and all water rights appurtenant to said property which have not been heretofore severed from the land;

Together with all oil, gas or other minerals which have not been heretofore excepted, severed or reserved from said land;

Together with all sand, gravel or other similar interest appurtenant to said land;

Subject to easements, exceptions and reservations which are of record or which are apparent upon the ground;

TRACT 2.

All of grantor's right, title, and interest in and to any and all real property which Grantor's may own, if any, in the land which lies between the east line of the tract of land described in Option To Purchase Real Property dated February 18, 1994 recorded in Book 1178 at Page 640 of the Records of the County Clerk of San Juan County, New Mexico on March 01, 1994 and the center line of the La Plata River.

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>

Subject: 9/2 6, 29/13

Date: January 23, 2008 3:51:50 PM MST

To: Dwight Arthur <darthur6@msn.com>

Cc: Glen Papp <gpapp@synergyoperating.com>, Tom Mullins <tom.mullins@synergyoperating.com>



Dwight:

I will check to see if we have a water sample from our wells in section 6 of 29/13.

If the state will give you approval to take the water from our well in section 7 we will provide you with water barring any unforeseen problems. As mentioned one barrel equates to 42 gallons. Can you estimate how much water you will need?

We can include a provision in the O&G gas lease for this purpose.

Be sure to talk to Biff Erenbach at the State Engineers office before we take the water sample. It could be that the state will not allow this, but I am hopeful they will in that it truly would be a win win arrangement.

Patrick

From: "Dwight Arthur" <darthur6@men.com>
Subject: RE: DWIGHT ARTHER
Date: March 12, 2008 11:03:24 AM MDT
To: "Patrick Hegarty" <patrick.hegarty@synergyoperating.com>

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the set back requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHER

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Re: DWIGHT ARTHUR
Date: March 12, 2008 11:18:51 AM MDT
To: "Dwight Arthur" <darthur6@msn.com>
Cc: Glen Papp <gpapp@synergyoperating.com>



Dwight:

I am forwarding your email on to my partner and Synergy's Operations Engineer in that he handles well placements. Glen Papp will be in touch with you. I am listing your phone number for this purpose (598-5525).

Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the set back requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty (mailto:patrick.hegarty@synergyoperating.com)
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT,ARTHUR

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Re: DWIGHT ARTHUR
Date: March 14, 2008 4:06:00 PM MDT
To: Dwight Arthur <darthur6@msn.com>
Cc: Glen Papp <gpapp@synergyoperating.com>



Dwight:

We met this morning concerning drilling a well on the southern end of your property. Our Engineer, Glen Papp that handles operations said that we would use more of your land building a road to the southern location than if the well were placed on the north end of your property next to the City's pump station. Being that your land around the City's pump station is where you might some day want to build on and a well site would take up most of your property in that you said the city would not allow you to build closer than 300 feet from the well pad, due to their regulations. It appears that drilling on your land is not a practical option?

Let me know if the above assessment is not correct.

I will call you next Friday to check up on the status of our Farmout Agreement.

Best Regards,
Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the setback requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHUR

Glen,

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 508-5525.

Patrick

From: "Dwight Arthur" <darthur6@msn.com>
Subject: RE: DWIGHT ARTHUR
Date: March 14, 2008 7:44:02 PM MDT
To: "Patrick Hegarty" <patrick.hegarty@synergyoperating.com>

Patrick:

I am inclined to agree that locating a well on my land is not feasible. I am really not interested. I will try to get my form of leases to you before next Friday.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Friday, March 14, 2008 4:06 PM
To: Dwight Arthur
Cc: Glen Papp
Subject: Re: DWIGHT ARTHUR

Dwight:

We met this morning concerning drilling a well on the southern end of your property. Our Engineer, Glen Papp that handles operations said that we would use more of your land building a road to the southern location than if the well were placed on the north end of your property next to the City's pump station. Being that your land around the City's pump station is where you might some day want to build on and a well site would take up most of your property in that you said the city would not allow you to build closer than 300 feet from the well pad, due to their regulations. It appears that drilling on your land is not a practical option?

Let me know if the above assessment is not correct.

I will call you next Friday to check up on the status of our Farmout Agreement.

Best Regards,
Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land.

In other words I might lease a part of my land to enable you to meet the setback requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Papp
Cc: Dwight Arthur
Subject: DWIGHT ARTHUR

Glen:

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is. 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Re: DWIGHT ARTHUR
Date: March 17, 2008 6:12:14 PM MDT
To: Dwight Arthur <darthur@man.com>

Dwight:

Sounds good. We looked again at maps of your property and it really does not make sense to locate a well on your land if you want to build a home there some day.

Best Regards,
Patrick

On Mar 14, 2008, at 7:44 PM, Dwight Arthur wrote:

Patrick:

I am inclined to agree that locating a well on my land is not feasible. I am really not interested. I will try to get my form of leases to you before next Friday.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Friday, March 14, 2008 4:06 PM
To: Dwight Arthur
Cc: Glen Pepp
Subject: Re: DWIGHT ARTHUR

Dwight:

We met this morning concerning drilling a well on the southern end of your property. Our Engineer, Glen Pepp that handles operations said that we would use more of your land building a road to the southern location than if the well were placed on the north end of your property next to the City's pump station. Being that your land around the City's pump station is where you might some day want to build on and a well site would take up most of your property in that you said the city would not allow you to build closer than 300 feet from the well pad, due to their regulations. It appears that drilling on your land is not a practical option?

Let me know if the above assessment is not correct.

I will call you next Friday to check up on the status of our Farmout Agreement.

Best Regards,
Patrick

On Mar 12, 2008, at 11:03 AM, Dwight Arthur wrote:

Patrick:

I might be willing to lease (not sell) a part of the south end of my property if the well was located on the State Right of Way, not on my land. In other words I might lease a part of my land to enable you to meet the setback requirements for a well located within the City of Farmington.

Dwight

-----Original Message-----

From: Patrick Hegarty [mailto:patrick.hegarty@synergyoperating.com]
Sent: Tuesday, March 11, 2008 9:20 AM
To: Glen Pepp
Cc: Dwight Arthur
Subject: DWIGHT ARTHUR

Glen.

Dwight Arthur said that he would agree to sell us some land on the south end of his property, but not near the City's pump station in that that land is suitable for building a structure on. He said his south border abuts the state of New Mexico's highway easement and would be perfect for drilling a well.

You might want to call Dwight or meet with him to make sure you understand what land he is talking about. His phone # is: 598-5525.

Patrick

From: Patrick Hegarty <patrick.hegarty@synergyoperating.com>
Subject: Accounting Practices anticipated for MacDonald Orchard well
Date: April 17, 2008 4:47:00 PM MDT
To: Dwight Arthur <darthur6@msn.com>
Cc: Ricki Daly <rdaly@synergyoperating.com>
> 1 Attachment, 583 KB

Dwight Arthur,

Attached is a few Accounting sheets that spell out all that is charges against a royalty interest. One exception note noted on these examples is charges for water. Fruitland Coal wells take as long as two years to de-water. Typically an Operator will charge this expense against all interest owners in the same fashion as a gas transportation charge.

Best Regards,
Patrick



[Dwight Arthur...pdf \(583 KB\)](#)

Owner's Distribution Statement

Page: 1

Synergy Operating, LLC
P.O. Box 5513
Farmington, NM 874995513

1042

████████████████████
 ████████████████████
 ████████████████████

Statement Date: 03/06/08

Run No 032/2008

Check Amount: \$1271.30

NM0004	Federal #1 (FTC)			Prod Prd
Production Income				
Wasatch Energy		209.00 MCF @ \$6.08291	\$1,271.33 X (5.9361559%)	2008/01 75.47
Gas Severance Tax	\$1,271.33		\$-106.71 X (5.9361559%)	2008/01 -6.34
Field Trans/Low		OTH	\$-108.72 X (5.9361559%)	2008/01 -6.45
Total Income			\$1,055.90	62.68
Well Expenses				
02/29/08 ORRI Gas Gathering Charges			\$18.46 X (5.9361559%)	2008/01 1.10
Total Well Expenses			\$18.46	1.10
Your Royalty Interest This Well				(A - B) = (C) 61.58
NM0005	Crawford 29-12-24 #103			Prod Prd
Production Income				
Wasatch Energy		493.00 MCF @ \$6.09142	\$3,003.07 X (12.4535250%)	2008/01 373.99
Gas Severance Tax	\$3,003.07		\$-252.10 X (12.4535250%)	2008/01 -31.40
Field Trans/Low	12W	OTH	\$-258.44 X (12.4535250%)	2008/01 -31.84
Total Income			\$2,494.53	310.65
Well Expenses				
02/29/08 ORRI Gas Gathering Charges			\$43.54 X (12.4535250%)	2008/01 5.42
Total Well Expenses			\$43.54	5.42
Your Royalty Interest This Well				(A - B) = (C) 305.23
NM0020	Federal 29-12-24 #101			Prod Prd
Production Income				
Wasatch Energy		779.00 MCF @ \$6.65100	\$4,713.73 X (5.9361559%)	2008/01 279.81
Gas Severance Tax	\$4,713.73		\$-398.47 X (5.9361559%)	2008/01 -23.48
Field Trans/Low		OTH	\$-405.21 X (5.9361559%)	2008/01 -24.05
Total Income			\$3,913.05	232.28
Well Expenses				
02/29/08 ORRI Gas Gathering Charges			\$68.87 X (5.9361559%)	2008/01 4.09
Total Well Expenses			\$68.87	4.09
Your Royalty Interest This Well				(A - B) = (C) 228.19
NM0021	Crawford 29-12-24 #102			Prod Prd
Production Income				
Wasatch Energy		811.00 MCF @ \$6.47399	\$5,250.41 X (12.4535250%)	2008/01 653.86
Gas Severance Tax	\$5,250.41		\$-443.22 X (12.4535250%)	2008/01 -55.20
Field Trans/Low		OTH	\$-421.82 X (12.4535250%)	2008/01 -52.51
Total Income			\$4,385.57	546.15
Well Expenses				
02/29/08 ORRI Gas Gathering Charges			\$71.06 X (12.4535250%)	2008/01 8.85
Total Well Expenses			\$71.06	8.85
Your Royalty Interest This Well				(A - B) = (C) 537.30



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 566-3750

July 16, 2008

Nancy J. Arthur, Trustee
THE DWIGHT D. ARTHUR REVOCABLE TRUST
P. O. Box 230
Kirtland, NM 87417

Re: Offer To Lease Your Trust's Minerals
Township 29 North, Range 13 West,
Section 7 - NESW San Juan County, NM

Dear Mrs. Arthur:

Your Trust owns 11.35 Acres of minerals in Section 7, T29N, R13W, San Juan County, New Mexico. See attached Exhibit "A".

Synergy Operating will be drilling a gas well that will include your Trust's minerals and are offering the Trust \$1,710.00 for an oil and gas lease with a three-year term that includes a 15% royalty obligation.

Enclosed please find three copies of our oil and gas Lease. Please sign in the presence of a Notary Public, returning two copies in the envelope provided. We will send the Trust a check for \$1,710.00 within ten days of our receipt of the signed oil and gas lease.

If you prefer, you may stop by our office for we have a Notary who can acknowledge your signature. Our address is 3510 Messina Drive, which is directly across the street from San Juan College off of college boulevard. Feel free to call my cell number: 303-6431 for further directions. Or, if preferred, we can send a Notary to your house to deliver you the check and pick up the oil and gas lease. Whatever you want to do in this regard is fine with us.

Sincerely,
Synergy Operating, LLC



Patrick Hegarty

Arthur OGL Ltr

Synergy Operating LLC
Authorization for Expenditure

MacDonald Orchard 29-13-7 #109
 Drill, complete & equip 1100' Fruitland Coal well

Location: T29N-R13W, Sec 7, U/L: E or F County: San Juan State: NM

Operator: Synergy Operating

FACILITY COSTS		Gross Amount
5604	Installation	115,000.00
5617	Contract Services	20,000.00
TOTAL Facility Costs		135,000.00

INTANGIBLE COMPLETION		Gross Amount
4403	Completion Rig	13,000.00
4408	Stimulation Treatments	65,000.00
4409	Completion Fluids	8,000.00
4411	Trucking	10,000.00
4412	Equipment Rentals	6,000.00
4415	Logging & Perforating	12,000.00
4418	Completion Supervision	4,000.00
4423	Water to Disposal	3,000.00
4424	Air Package &	6,000.00
4430	Flowback Iron	4,000.00
4435	Portable Toilet	1000.00
TOTAL Intangible Completion		132,000.00

INTANGIBLE DRILLING		Gross Amount
3300	Site Access - Survey & Staking	2,000.00
3301	Site Access -	20,000.00
3303	Rig Mobilization	4,000.00
3304	Drilling - Footage	40,000.00
3308	Mud & Additives	4,000.00
3311	Water to Rig Pit	5,000.00
3312	Equipment Rental	20,000.00
3315	Openhole Logging	5,000.00
3318	Drilling Supervision	4,000.00
3321	Cementing - Drilling	21,000.00
3324	Water/Mud to Disposal	25,000.00
3326	BOP Rental	3,000.00
3331	Safety Svc/BOP Testing	1,500.00
3333	Anchors Sets & Test	1,000.00
3338	Casing Crew	3,000.00

**SIGN & RETURN
THIS COPY**

EXHIBIT **D**

Ben Jones

TOTAL Intangible Drilling

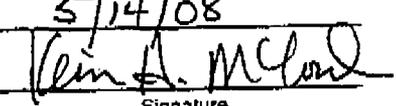
158,500.00

TANGIBLE COMPLETION		Gross Amount
4419	Production Casing & Accessories	15,000.00
4502	Upper Wellhead	3,000.00
4503	Tubing	6,000.00
TOTAL Tangible Completion		24,000.00

TANGIBLE DRILLING		Gross Amount
3419	Surface Casing &	4,000.00
3425	Wellhead	2,000.00
TOTAL Tangible Drilling		6,000.00

TANGIBLE EQUIPPING		Gross Amount
5501	Sucker Rods &	8,000.00
5502	Valves & Fittings	15,500.00
5503	Downhole Pump	4,000.00
5504	Pumpjack & Base	18,000.00
5506	Flowline	100,000.00
5507	Separators	10,000.00
5508	Storage Tanks	14,000.00
5510	Engines & Motors	8,000.00
5511	Metering Equipment	12,000.00
5515	Noise Abatement	5,000.00
TOTAL Tangible Equipping		194,500.00
TOTAL COST ESTIMATE		650,000.00

Robert L. Bayless, Producer LLC

Date:	5/14/08
Accepted By:	
	Signature
	Kevin H. McCord
	Print Name
	Operational Manager

May 5, 2008