



Synergy Operating, LLC

PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 325-6585

November 4, 2004

Registered Mail RRR

Earnest Smith
40758 Jasper Drive
and ~~1400 Wilson Way~~
Kingsbury, CA 93631-1316

Accounting:
Steven R Jones CPA
1251 Draper Street
Kingsburg, CA 93631-1934

RE: Our Ownership of 25% of 8/8ths WI & NRI
Claude Smith #1 Well, SW/4 Sec. 8, T29N, R11W

Gentlemen:

Enclosed please find copies of assignments covering the minerals in the SW/4 Section 8, T29N, R11W involved with the Claude Smith well. Synergy has negotiated the ownership of 25% working and net revenue interest in said well that you operate, effective October 1, 2004. Be advised that an engineer from our office conducted a field inspection and found that said well was not in compliance with state regulations governing open pit closure. It appears that drip from said well is being deposited into an open pit which could cost as much as \$60,000.00 to close in accordance with state regulations.

We propose to install a small 210 barrel tank to catch said drip. Said tank is available for purchase nearby for a reasonable sum. Plus employ a roustabout crew to install said tank, the related plumbing, and a gravel berm. Further, an Environmental company will be employed to suck the residual drip out of said open pit and deposit a hydrocarbon eating substance, to begin the reclamation process. Our Operations engineer, Glen Papp (505-566-3729, direct line) estimates the total cost of this operation to be no more than \$5,000.00. Addressing this open pit liability must be addressed as soon as possible.

Be advised that we also agreed to provide the prior mineral owners with a copy of our guesstimation of what amount of monies they should have been paid since 1996. They plan to compare our guesstimation against what you actually paid them to determine if they have been properly paid. It would assist us greatly if you could provide us with actual cost data and gas prices received since 1996. Receipt of this data will allow us to plug these numbers directly into our economic analysis software.

Also we need a copy of the governing Operating Agreement and any other contractual agreements that may influence our ownership. We look forward to working with you in mutually profitable manner.

Sincerely,
Synergy Operating, LLC

Patrick Hegarty
Principal

Enclosures

XC: Mineral owners & Glen Papp
Claude Smith Ltr.doc

OIL CONSERVATION ~~DIVISION~~
COMIN

CASE NUMBER

EXHIBIT NUMBER 3

Synergy

My direct line ph # is: 505-334-4993

→ Slud Demand Ltr
must address this problem
who is the pumper ???

November 17, 2004

Earnest Smith
40758 Jasper Drive
Kingsbury, CA 93631-1316

RE: Our Ownership of 25% of 8/8ths WI & NRI
Claude Smith #1 Well, SW/4 Sec. 8, T29N, R11W

Gentlemen:

Enclosed please find copies of all assignments covering the minerals in the SW/4 Section 8, T29N, R11W involved with the Claude Smith well. Synergy has negotiated the ownership of 25% working and net revenue interest in Claude Smith #1 well that you operate, effective October 1, 2004. Payment on said well is to be effective October 1, 2004.

Mineral Int. Owner % ownership

Annemarie Keller 6.25%

Margaret K. Dunn 6.25%

Charla Varner. 3.125%

Robert E. Kouns, 3.125%

Kimberly Brautigam 3.125%

Jodie Yates 3.125%

Total: 25%

We look forward to receiving revenues on the said well.

Sincerely,
Synergy Operating, LLC

Analyst
Calissa Davies

XC: Steven R. Jones CPA
Claude Smith Ltr.doc



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 325-6585

March 14, 2005

RRR Registered Mail

Earnest and Edwin Smith
Successors in Interest to Claude Smith
40758 Jasper Drive
Kingsbury, CA 93631-1316

RE: Duff 29-11-8#104, W/2 Sec. 8, T29N, R11W

Dear Mr. Smith:

Pursuant to our telephone discussion enclosed please find an Operating Agreement necessary to drill a Fruitland Coal test well in the W/2 Sec. 8, T29N, R11. Based upon our preliminary title examination, you are shown to own 50% of the working interest in the SW/4, being 25% of the E/2, 320 acres required by the New Mexico Oil Conservation Division to drill a Fruitland Coal well.

You have a number of options to consider regarding this proposed well, which are:

- 1) Participate,
- 2) Go non-consent,
- 3) Farmout,
- 4) Sell

Participation will cost you roughly 25% of \$340,000 of anticipated well costs, or \$85,000 net. Or, you can elect to go non-consent with a 256% penalty, which is what the New Mexico Oil Conservation Division would assess if a Force Pool Proceeding were held? Or, you can farmout your interest receiving a 20% royalty gross or 5% net, proportionately reduced being that you own 80 net acres of the 320 acres necessary to produce this well. Or, you can sell your Fruitland Coal rights for \$50,000.

If you want to participate, Synergy Operating, LLC has engineers on staff with as much, or more Fruitland Coal experience as any engineer in this basin. Our main objective is to avoid having to initiate legal action before the Oil Conservation Division to invoke a Force Pool non-consent penalty necessary to drill our well.

Your attention to this matter will be appreciated.

Sincerely,
Synergy Operating, LLC

Patrick Hegarty
Principal

Enclosures

XC: Steven R. Jones CPA



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 325-6585

March 24, 2005

RRR Registered Mail

Earnest and Edwin Smith
Successors in Interest to Claude Smith
40758 Jasper Drive
Kingsbury, CA 93631-1316

RE: Duff 29-11-8#104, W/2 Sec. 8, T29N, R11W
Operating Agreement

Dear Mr. Smith:

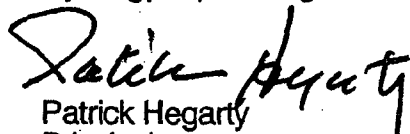
I spoke with your attorney today a Ms. Nyer (sp?). I told her that we needed an Operating Agreement if you wanted to participate in our Fruitland Coal test well in the W/2 Sec. 8, T29N, R11. As previously written, participation will cost you roughly 25% of \$340,000 of anticipated well costs, or \$85,000 net.

We have enclosed an Operating Agreement for your consideration. If you decide to participate, please return the previously mailed Authority For Expenditure and one signature page to the enclosed Operating Agreement.

We have discussed the need to locate the Operating Agreement that you are operating under covering the Claude Smith well. You may not be able to find an Operating Agreement for this well? Be advised that we would be willing to enter into the exact same Operating Agreement designating you as operator for the Pictured Cliffs horizon as we are proposing for the Fruitland Coal horizon. In this way you can be confident that we are willing to allow you to operate under the exact same terms that we propose to operate under for our planned Fruitland Coal well.

Your attention to this matter will be appreciated.

Sincerely,
Synergy Operating, LLC


Patrick Hegarty
Principal

Enclosure



PO Box 5513
Farmington, NM 87499
(505) 325-5449
Fax (505) 325-6585

May 19, 2005

Ed Smith
40758 Jasper Drive
Kingsbury, CA 93631-1316

RE: Operating Agreement
Duff 29-11-8#104, W/2 Sec. 8, T29N, R11W

Dear Ed:

Enclosed please find another copy of the Operating Agreement necessary to drill a Fruitland Coal test well in the W/2 Sec. 8, T29N, R11. As previously stated, participation will cost you 25% minus the Robbins interest of .015625 equals 23.34375% of \$340,000 of anticipated well costs, or \$79,688.00 net.

Please sign and return the extra copy of the signature page to the Operating Agreement, the Authority of Expenditure (AFE) and a check in the amount of \$79,688.00

Your attention to this matter is appreciated.

Sincerely,
Synergy Operating, LLC

Patrick Hegarty
Principal

Enclosure