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LONGVIEW, TEXAS 75606

November 11, 2004

Mr. Harold Smith
S & H Resources, Inc
P. O. Box 2572
Longview, TX 75606

Re: Waterflood Potential
Panola Fredericksburg Field
Panola County, TX

Dear Harold:

At your request I have spent some time reviewing the data available with regards to determining the feasibility of waterflooding the Fredericksburg. One of the hurdles will be collecting better data on the formation, as I'm sure you will recall most wells have only cased hole logs available. Baker Atlas and Schlumberger both have cased hole evaluation tools that can be run to help analyze porosity and water saturation. The prior reservoir study was based in part on the mapping done by Bob Oliver. Bob Oliver is unavailable due to health issues, however some geologist will be needed to remap the floodable portion of the Fredericksburg. I would recommend that 15 or so wells be logged using the above mentioned log techniques and that new horizontal wells be logged and cored if feasible.

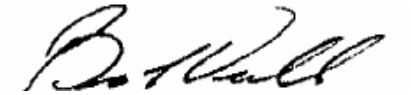
The Fredericksburg formation has good porosity, but low permeability. It is a solution gas drive reservoir. In general these factors make it a waterflood candidate. The Jernigan #3 well was conventionally cored from 2356 ft. to 2369 ft. The core indicated 7 feet of higher quality rock and 6 ft of tighter lower quality rock. The 7 feet had an average of 25.8 % porosity, .55 md permeability, and 46.1 % water saturation. This calculates out to 1136 barrels of oil in place per acre-foot. The tighter rock may not be floodable, but contributes to the overall recovery of oil in the field. Primary plus waterflood recoveries should be in the range of 25% to 40% of the original oil in place. That translates to an estimated 2.25 to 3.6 million barrels. Horizontal wellbores will improve the effective permeability in the oil bearing portion of the Fredericksburg. A number in the range of 8 to 10 horizontal wells should effectively drain the remaining primary

reserves. Properly placed, these wells can become the producing wells in a waterflood. The current vertical wells can be converted to injectors.

The plan would be to evaluate the new horizontal wells and run cased hole logs in the current vertical wells. Then the field should be remapped and a reservoir evaluation including a waterflood simulation run. A pilot flood can then be initiated on a portion of the field. Based on the success of the pilot the entire field can be flooded. The reserve projections and future values are estimates only and should not be construed as being exact quantities. Actual producing rates and associated values will vary from the assumptions made here. The reserves may or may not ever be recovered.

If I can be of further assistance please do not hesitate to call.

Sincerely,



Bruce L. Veralli, P.E.