

NM&O OPERATING COMPANY

6 EAST FIFTH, SUITE 200
TULSA, OKLAHOMA 74103
(918)584-3802

September 29, 1999

CERTIFIED MAIL-RETURN RECEIPT REQUESTED

McElvain Oil & Gas Properties, Inc.
P.O. Box 2148
Santa Fe, NM 87504-2148

Attention: Steve Jordan

RE: Proposed Elk Com "4" #1 Well
NE/4 Sec. 4-T25N-R2W
Rio Arriba County, NM

Dear Mr. Jordan:

This letter is to respond to your correspondence dated September 16, 1999 in reference to McElvain Oil and Gas Properties, Inc. ("McElvain") proposal to drill the above captioned Well. Please be advised that NM&O Operating Company ("NM&O") does not wish to participate in the drilling of the proposed well. However, to assist McElvain in expediting the drilling of this Well, NM&O offers the following:

1. NM&O will agree to farmout all of our working interests to McElvain retaining an overriding royalty interest equal to the difference between existing burdens of record and 25%

OR

2. NM&O will consider a "like for like" acreage trade with McElvain where NM&O would trade our net acreage located in Section 4 or a like amount of net acreage owned by McElvain located elsewhere in T25N, R2W, Rio Arriba County, New Mexico

Please advise if McElvain has any interest in pursuing any of the two options listed above.

Sincerely,



Deborah Greenwich
Landman

:dg

cc: Mr. James P. Bruce, Esquire

DEBORAH GREENICH
LANDMAN

NMFO EXHIBIT 1

FILE NO 12251