

NM&O OPERATING COMPANY

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TULSA, OKLAHOMA 74103
(918)584-3802

August 8, 2000

VIA FACSIMILE (303) 843-0914

Ms. Mona L. Binion
McElvain Oil & Gas Properties, Inc.
1050 Seventeenth Street, Suite 1800
Denver, Colorado 80265

RE: Dewey Bartlett #1 Well (Re-entry)

Dear Ms. Binion:

I am in receipt of your facsimile dated August 7, 2000 and McElvain Oil & Gas Properties, Inc. ("McElvain") explanations to some of my questions concerning recompleting the Mesaverde interval without first testing the Dakota zone formation as has been proposed by NM&O Operating Company ("NM&O"). I appreciate your response and input, but NM&O disagrees with McElvain's proposal of recompleting the Mesaverde first. To do so, in NM&O's opinion, will result in severe and undue mechanical risk in attempting to recomplete and test the Dakota zone interval at a later date, since the Dakota zone is the deepest potential hydrocarbon producing interval in the well.

Please be advised that NM&O does not challenge McElvain's right to seek the use of the Dewey Bartlett #1 wellbore for a future Mesaverde completion. However, as NM&O also has the right to seek use of that previously drilled and cased wellbore, NM&O believes that it is more prudent to recomplete first in the deeper Dakota zone interval. Again, NM&O believes that development of the deeper Dakota zone interval reserves are placed at great risk of future development under McElvain's proposal.

However, in order to attempt to come to some sort of voluntary agreement with McElvain and its' partners concerning the use of this wellbore, NM&O offers the following for McElvain's consideration:

- o NM&O, as operator of the Dakota zone, will re-enter the Dewey-Bartlett #1 Well for the sole purpose of completing and testing of the Dakota zone interval at 8244'-8358'. If this Dakota zone completion proves to be non-economical, or in the alternative, if the Dakota production is commercial but reaches some minimum rate of production (to be agreed on in advance by McElvain & NM&O) then, at that time, NM&O will

BEFORE EXAMINER ASHLEY
OIL CONSERVATION DIVISION

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resign as operator of the Dakota zone interval completion and will turn over operations of the wellbore for re-completion in the Mesaverde zone intervals to McElvain. At that point, if the well is dually completed, or commingled with the Dakota zone interval production, then McElvain shall then remain as operator.

I hope the above meets with McElvain's approval. Please call if you have any questions concerning same or would like to discuss further if you have any interest.

Very truly yours,



Larry D. Sweet

LDS/hlt