McElvain Oil & Gas Properties, Inc.

1050 17[™] Street, Suite 1800 Denver, Colorado 80265

MONA L. BINION, CPL LAND MANAGER TELEPHONE 303-893-0933 EXT.306 Fax 303-893-0914

January 23, 2001

VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED

TO WORKING INTEREST OWNERS (See Attached Address List)

Re: Badger #10-1A Well Proposed Dakota Test S/2 Section 10, T25N-R2W Rio Arriba County, New Mexico McElvain Badger Prospect

Gentlemen:

McElvain Oil & Gas Properties, Inc. hereby proposes the drilling of an 8,400' Mesaverde / Dakota test well to be drilled at a legal location in the SE/4 of Section 10, Township 25 North, Range 2 West, Rio Arriba County, New Mexico. The dedicated spacing unit for the proposed well is the S/2 of Section 10 which contains three federal and one fee oil and gas leases. The estimated cost to drill and complete the well as a producer in both the Mesaverde and Dakota formations, commingled, is \$996,640. Enclosed for your review and information is McElvain's Authority for Expenditure dated January 5, 2001 which represents a detailed estimate of the cost to conduct the operation. Our records reflect that the interest of the parties in the dedicated proration unit is as follows:

T. H. McElvain Oil & Gas Limited Partnership James M. Raymond, a married man dealing	40.15845%
in his separate property	2.83744%
McElvain Oil Company	2.83744%
Ibex Partnership	3.90218%
States, Inc.	3.90218%
Clark & Oatman, a Texas general partnership	.52897%
Dugan Production Corporation	25.00000%
Georgia Ann Fundingsland, Co.	3.12500%
Ernest Laurell Fundingsland, Jr., Co.	3.12500%
Joanne Lee Rasmussen	6.25000%
NM&O Operating Company	8.33334%

The above interests represent the ownership of the parties in both the Mesaverde and Dakota formations and incorporates all existing farmouts arrangements and assumes that such arrangements and the governing operating agreement are revised to incorporate the deeper Dakota horizion.

BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico Case No. <u>12634</u> Exhibit No. 4 Submitted by: <u>McElvain Oil & Gas Properties, Inc.</u> Hearing Date: <u>April 5, 2001</u> To Working Interest Owners January 23, 2001 Page 2

Our evaluation of this location included the comparison of drilling a single Mesaverde test versus drilling a dual Mesaverde / Dakota test. The incremental difference in cost to drill the well to the Dakota formation as opposed to only to the Mesaverde is minimal which certainly affords the justification of proposing the depth of the Mesaverde infill well to test the Dakota . Our intention (if independent testing of each formation supports) is to complete both the Dakota and Mesaverde formations and commingling the production therefrom. The cost estimates represented in the enclosed Authorization for Expenditure contemplates the full operation to drill and complete both formations.

In the process of preparing for the drilling of the Badger #10-1 well in the SW/4 of Section 10, the parties entered into an operating agreement dated March 1, 2000 covering the S/2 of Section 10, Township 25 North, Range 2 West ("Operating Agreement"). The initial well in this spacing unit, the Badger #10-1 Well was drilled to test only the Mesaverde formation, therefore, the depth covered under the Operating Agreement is from the base of the Pictured Cliffs formation to the base of the Mesaverde formation. Inasmuch as this proposal includes drilling the infill well under this Operating Agreement to a depth to test the Dakota formation, it is necessary to amend the Operating Agreement to extend the depths covered thereunder to include the Dakota formation. We have, therefore, enclosed herewith an Amendment to Operating Agreement which revises the depth limitation of to cover depths from the base of the Pictured Cliffs formation to the base of the Dakota formation. Maintaining a uniform interest in both formations for participation in the well will allow a more efficient commingling opportunity for the participating parties.

Also enclosed for your review and information is a copy of the Drilling and Division Order Opinion dated September 19, 2000 covering the S/2 of Section 10 prepared by Roberts & Strothers, PC. We would appreciate your reviewing the comments and requirements contained therein and completing the enclosed Title Approval to return to this office at your earliest convenience. Please advise this office immediately in the event the interests reflected in the opinion for you or your firm are inconsistent with your recrods.

We request that you review this proposal and respond in the following manner:

- Operating Agreement Amendment Execute both copies and return one
- <u>Election Page</u> Indicate on both copies your election regarding participation, sign and return one copy
- <u>Authorization for Expenditure</u> *If your election is to participate*, execute both copies and return one
- <u>Title Approval</u> review the opinion and its representation of your interest, sign and return one copy of the Title Approval form
- <u>Well Information Requirements</u> return a listing of your Well Information requirements with your elections. If you do not have requirement summary prepared, please complete the form enclosed herewith and return it with your elections.

This well is scheduled in our program as one of the next upcoming wells to commence within the next three weeks. *We would appreciate your prompt response to this proposal*. We thank you for your time and consideration and ask that if you have any questions whatsoever related to this

To Working Interest Owners January 23, 2001 Page 2

proposal, please feel free to call. Science questions may be directed to Larry Van Ryan (303) 893-0933 x301. Engineering questions may be directed to John Steuble (303) 893-0933 x302. We look forward to hearing from you soon.

Very truly yours,

McElvain Oil & Gas Properties, Inc.

mon

Mona L. Binion

Mona L. Binion, CPL Land Manager

MLB/idi

Encls.

ELECTION PAGE Badger Com #10-1A Well January 23, 2001 Proposal to Drill and Complete Mesaverde / Dakota Test

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VFS I	we do hereby elect to participate in the proposed drilling of the Badger		
Com #1	0-1A Well located in the SE/4 of Section 10, Township 25 North, Range Rio Arriba County, New Mexico.		
	 YES, I/we do hereby elect to assume my/our proportionate share of any additional interest available through non-consent elections or compulsory pooling. NO, I/we do hereby elect NOT to assume my/our proportionate share of any additional interest available through non-consent elections or compulsory pooling. 		
	If your election is to participate, please include: Executed Authority for Expenditure Well Reporting Requirements for your firm		
Well lo	we hereby elect <u>NOT</u> to participate in the proposed Badger Com #10-1A cated in the SE/4 of Section 10, Township 25 North, Range 2 West, Rio County, New Mexico.		
PARTICIPANT NAM	E:		
BY:			
Date:	(Title)		
PLEASE RETURN THIS ELECTION AS INSTRUCTED ABOVE TO: Mona L. Binion Telefax (303) 893-0914			

Mail original to:

McElvain Oil & Gas Properties, Inc. 1050 17th Street, Suite 1800 Denver, CO 80265

TITLE APPROVAL Badger Com #10-1A Well

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	YES, I/we do hereby approve title as represented under the Drilling and Division Order Title Opinion done by Roberts & Strother, P.C. Dated September 19, 2000 for the Badger Com 10-1 Well S/2 Section 10, Township 25 North, Range 2 West, N.M.P.M. Rio Arriba County, New Mexico
	NO, I/we do NOT approve title as represented under the Drilling and Division Order Title Opinion done by Roberts & Strother, P.C. Dated September 19, 2000 for the Badger Com 10-1 Well S/2 Section 10, Township 25 North, Range 2 West, N.M.P.M. Rio Arriba County, New Mexico
	REASON for non approval
PARTICIPAN	T NAME:
BY:	/T'/1_)
Date:	(Title)

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WORKING INTEREST OWNERS

Badger Com #10-1A Well January 23, 2001 Proposal to Drill and Complete Mesaverde / Dakota Test Well

T. H. McElvain Oil & Gas Limited Partnership c/o. McElvain Oil & Gas Properties, Inc., Sole General Partner 1050 17th Street, Suite 1800 Denver, Colorado 80265

James M. Raymond P. O. Box 1445 Kerville, TX 78029-1446

McElvain Oil Company P. O. Box 80188 Dallas, TX 75380

Ibex Partnership States, Inc. P. O. Box 911

Breckenridge, TX 76424

Clark & Oatman

P. O. Box 310 Bishop, TX 75602

Dugan Production Corporation 709 E. Murray Drive Farmington, NM 87499

Georgia Ann Fundingsland, Co. Ernest Laurell Fundingsland, Jr., Co. 713 Front Range Road Littleton, Colorado 80120

Joanne Lee Rasmussen 557 Stagecoach Road Grand Island, NE 68801

NM&O Operating Company 6 East 5th Street, Suite 200 Tulsa, Oklahoma 74103



AUTHORITY for EXPENDITURE January 5,2001

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Total Intangibles 425,900 844,750 Tangibles 600' 9 5/8" @ \$13.40/ft. 8,040 8,040 CasingSurface 600' 9 5/8" @ \$13.40/ft. 8,040 8,040 8,040 CasingProduction 8400' 5 1/2" @ \$7.00/ft. 19,550 58,800 19,550 Tubing8500' 2 3/8" @ \$2.30/ft 1,500 8,500 19,550 Float Equipment 1,500 8,500 8,500 Wellhead 1,500 8,500 8,500 Artificial LiftPlunger 4,500 8,000 11,500 8,000 Tanks & Pits 18,500 17,500 8,000 151,890 Line Pipe & Fittings 11,040 151,890 8,000 151,890 APPROVALS: McElvain Oil & Gas Properties, Inc. Image: If / 5 / 0 / Date: I / 5 / 0 / If / 5 / 0 /		0	· · ·
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Float Equipment 1,500 8,500 Wellhead 1,500 8,500 Artificial LiftPlunger 4,500 Tanks & Pits 18,500 Separator 17,500 Line Pipe & Fittings 8,000 Total Tangibles 11,040 APPROVALS: McElvain Oil & Gas Properties, Inc. Image: 1/5/01 Approved by: Title: Ittle:	CasingProduction 8400' 5 1/2" @ \$7.00/ft.		58,800
Wellhead 1,500 8,500 Artificial LiftPlunger 4,500 Tanks & Pits 18,500 Separator 17,500 Line Pipe & Fittings 8,000 Total Tangibles 11,040 APPROVALS: McElvain Oil & Gas Properties, Inc. Image: 1/5/01 Approved by: Title: Image: 1/5/01	Tubing8500' 2 3/8" @ \$2.30/ft		19,550
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Artificial LiftPlunger 4,500 Tanks & Pits 18,500 Separator 17,500 Line Pipe & Fittings 8,000 Total Tangibles 11,040 APPROVALS: McElvain Oil & Gas Properties, Inc. Am type Approved by: Title:	Wellhead	1,500	8,500
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Separator 17,500 Line Pipe & Fittings 8,000 Total Tangibles 11,040 151,890 APPROVALS: McElvain Oil & Gas Properties, Inc. Am Jam Date: 1/5/01 Approved by:			4,500
Line Pipe & Fittings 8,000 Total Tangibles 11,040 151,890 Total Well Cost \$436,940 \$996,640 APPROVALS: Approved by:	Tanks & Pits		18,500
Total Tangibles 11,040 151,890 Total Well Cost \$436,940 \$996,640 APPROVALS: Am Jan Date: 1/5/01 McElvain Oil & Gas Properties, Inc. Am Jan Date: 1/5/01	Separator		17,500
Total Well Cost \$436,940 \$996,640 APPROVALS: /an /an Date: 1/5/01 McElvain Oil & Gas Properties, Inc. /an /an Date: 1/5/01 Approved by:	Line Pipe & Fittings		8,000
APPROVALS: McElvain Oil & Gas Properties, Inc. Approved by: Title:	Total Tangibles	11,040	151,890
McElvain Oil & Gas Properties, Inc Date:	Total Well Cost	\$436,940	\$996,640
Approved by: Title:	APPROVALS:		
Approved by: Title:	McElvain Oil & Gas Properties, Inc.	Date:	1/5/01
Company:	Approved by: Title	:	
	Company:		