

McElvain Oil & Gas Properties, Inc.

1050 17TH 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	40.15845%
James M. Raymond, a married man dealing 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 horizon.

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12634 Exhibit No. 4
Submitted by:
McElvain Oil & Gas Properties, Inc.
Hearing Date: April 5, 2001

To Working Interest Owners
January 23, 2001
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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 records.

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

- Operating Agreement Amendment – Execute both copies and return one
- Election Page – Indicate on both copies your election regarding participation, sign and return one copy
- Authorization for Expenditure – *If your election is to participate*, execute both copies and return one
- Title Approval – review the opinion and its representation of your interest, sign and return one copy of the Title Approval form
- Well Information Requirements – 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

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January 23, 2001
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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.

A handwritten signature in cursive script that reads "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

_____ **YES, I/we** do hereby elect to participate in the proposed drilling of the Badger Com #10-1A Well located in the SE/4 of Section 10, Township 25 North, Range 2 West, 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

_____ **NO, I/we** hereby elect **NOT** to participate in the proposed Badger Com #10-1A Well located in the SE/4 of Section 10, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

PARTICIPANT NAME: _____

BY: _____
(Title)

Date: _____

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

_____ 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 _____

PARTICIPANT NAME: _____

BY: _____
(Title)

Date: _____

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

30 JAN 23 2001

Ernest

McELVAIN OIL & GAS PROPERTIES, INC.

AUTHORITY for EXPENDITURE

January 5, 2001

Badger Com 10 #1A SE/4 10-25N-2W	DRY HOLE	COMPLETED WELL
Drilling Intangibles		
Staking, Permitting, Title Work & Survey	16,000	16,000
Location, Road, Damages	27,500	27,500
Footage 8400' @ \$22.00/ft	184,800	184,800
Daywork 4.5 days @ \$6800/day	30,600	30,600
Mud Logging	15,000	15,000
Water Hauling	15,000	15,000
Rental Equipment	2,000	2,000
Well Logging	22,000	22,000
Drilling Mud	55,000	55,000
Cement & Services..Surface, Intermediate	8,500	8,500
Cement & Services..Plugging	20,000	
Trucking & Labor	2,500	2,500
Overhead & Supervision	15,000	15,000
Misc Costs	12,000	12,000
Contingency		
Total Drilling	425,900	405,900

Completion Intangibles		
Cement & Services..Production Casing		55,000
Completion Unit 24 days @ \$2,800/day		67,200
Logging & Perforating		26,000
Stimulation		185,000
Tool & Tank Rental		18,000
Supervision 25 days @ \$650/day		16,250
Water		30,000
Trucking		6,500
Roustabouts/Labor 7 days @ \$2000/day		14,000
Specialized Tools		
5% Contingency		20,900
Total Completion	0	438,850

Total Intangibles 425,900 844,750

Tangibles		
Casing..Surface 600' 9 5/8" @ \$13.40/ft.	8,040	8,040
Casing..Production 8400' 5 1/2" @ \$7.00/ft.		58,800
Tubing..8500' 2 3/8" @ \$2.30/ft		19,550
Float Equipment	1,500	8,500
Wellhead	1,500	8,500
Artificial Lift..Plunger		4,500
Tanks & Pits		18,500
Separator		17,500
Line Pipe & Fittings		8,000
Total Tangibles	11,040	151,890

Total Well Cost \$436,940 \$996,640

APPROVALS:

McElvain Oil & Gas Properties, Inc.  Date: 1/5/01

Approved by: _____ Title: _____

Company: _____