

**McElvain Oil & Gas Properties, Inc.**

1050 17<sup>TH</sup> STREET, SUITE 1800  
DENVER, COLORADO 80265

MONA L. BINION, CPL  
LAND MANAGER  
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**VIA OVERNIGHT MAIL - RETURN RECEIPT REQUESTED**

March 28, 2001

TO WORKING INTEREST OWNERS  
(See attached addressee list)

Re: Operating Agreement  
Re-Entry Proposal (f/k/a Wynona #1)  
*Naomi Com #1*  
Township 25 North, Range 3 West  
Section 25: S/2  
Rio Arriba County, New Mexico

Gentlemen:

By letter dated November 10, 2000, McElvain Oil & Gas Properties, Inc., proposed the re-entry of the Wynona #1 Well located SE/4SW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico, *to be named the Naomi Com #1* in order to attempt a completion of the Mesaverde formation. Submitted herewith as a followup to that proposal is the form Operating Agreement covering the S/2 of Section 25, Township 25 North, Range 3 West, limited to those depths below the base of the Pictured Cliffs formation.

Please review the enclosed and execute the Operating Agreement and extra signature pages provided therewith, returning one fully executed signature page to the undersigned at your earliest convenience. Those parties who have not previously responded regarding an election to participate or not participate in the proposed operation, we have enclosed herewith an Election Page and Authorization for Expenditure, in duplicate, which we again request that you complete, execute and return to the undersigned. If you elect not to participate you have the option of executing the enclosed Operating Agreement and electing to be subject to the "non-consent" provision of Article VI, B. 2 thereof. McElvain would also willingly entertain proposals to assume non-participating interests under purchase or farmout arrangements.

We thank you for your consideration to this request and ask that if you have any questions concerning the above or enclosed, please feel free to contact the undersigned.

Very truly yours,  
McElvain Oil & Gas Properties, Inc.

*Mona L. Binion*  
Mona L. Binion, CPL  
Land Manager

MLB/idi  
Encls.

Before the Oil Conservation Commission  
Santa Fe, New Mexico  
Case Nos. 12635 *de novo*, 12705 Exhibit No. 7  
McElvain Oil & Gas Properties, Inc.  
Hearing Date: November 6, 2001

**WORKING INTEREST OWNERS**  
**Naomi #1**

**T. H. McElvain Oil & Gas Limited Partnership**  
**1050 17<sup>th</sup> Street, Suite 1800**  
**Denver, CO 80265**

**DJ Simmons Company Limited Partnership**  
**1009 Ridgeway Place**  
**Farmington, NM 87401**

**Forcenergy Onshore, Inc.**  
**C/o Forest Oil Corporation**  
**1600 Broadway, Suite 2200**  
**Denver, CO 80202**

**Herbert Kai**  
**P. O. Box 500**  
**Rilliot, Arizona 85654**

**Dugan Production Corporation**  
**709 East Murray Drive**  
**Farmington, NM 87499**

**ELECTION PAGE**

**Naomi #1 Well**

**March 28, 2001**

**Re-entry of the former Wynona #1  
Mesaverde Recompletion**

\_\_\_\_\_  
**YES, I/we do hereby elect to participate in the proposed re-entry and recompletion of the Mesaverde formation in the Naomi #1 Well located in the SW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico.**

*If your election is to participate, please return this Election  
Page along with:*

*Executed Authority for Expenditure*

*Executed signature pages to Operating Agreement*

*Well Reporting Requirements for your firm*

\_\_\_\_\_  
**NO, I/we hereby elect NOT to participate in the proposed re-entry and recompletion of the Mesaverde formation in the Naomi #1 Well located in the SW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico.**

**Parties electing not to participate are offered optional arrangements with McElvain for purchase, farmin, non-participation with penalty (non-consent) under JOA enclosed, or other arrangement as negotiated to be mutually acceptable to the affected parties. As a party not interested in participating in the proposed operation, I/we would be interested in receiving a proposal from McElvain for one of the following:**

\_\_\_\_\_**Farmin**

\_\_\_\_\_**Sale of Interest**

\_\_\_\_\_**Non-Consent under enclosed JOA**

\_\_\_\_\_**Other \_\_\_\_\_**

**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 17<sup>th</sup> Street, Suite 1800**

**Denver, CO 80265**

**McELVAIN OIL & GAS PROPERTIES, INC.**

**AUTHORITY for EXPENDITURE**

September 6, 2000

WYNONA #1 Mv Recompletion  
SE/SW Section 25 T25N R3W

DRY  
HOLE

COMPLETED  
WELL

<b>Completion Intangibles</b>		
Title Work, Survey & Permitting		2,500
Location, Road, Damages		8,500
Completion Unit 21 days @ \$2,500/day		52,500
Perforating & Cased Hole Logging		15,000
Stimulation acid & frac		135,000
Tool & Tank Rental		15,000
Supervision 25 days @ \$650/day		16,250
Water		15,000
Trucking		12,000
Roustabouts/Labor 7 days @ \$2000/day		14,000
Location Rehab		2,500
5% Contingency		13,900
<b>Total Completion</b>	<b>0</b>	<b>299,650</b>

**Total Intangibles                      0                      299,650**

<b>Tangibles</b>		
Casing..Surface		
Casing..Intermediate		
Casing.. Liner		
Tubing..6000' 2 3/8" @ \$2.30/ft		13,800
Wellhead		7,500
Bits		1,200
Artificial Lift..Plunger		4,500
Tanks & Pits		13,500
Separator & Dehydrator		17,500
Line Pipe & Fittings		6,500
<b>Total Tangibles</b>	<b>0</b>	<b>64,500</b>

**Total Well Cost                      \$0                      \$364,150**

APPROVALS:

McElvain Oil & Gas Properties, Inc.

Date: 9/6/00

Approved by: \_\_\_\_\_ Title: \_\_\_\_\_

Company: \_\_\_\_\_

# **NAOMI #1 WELL**

**A.A.P.L. FORM 610-1982**

## **MODEL FORM OPERATING AGREEMENT**

**OPERATING AGREEMENT**

**DATED**

**December 1 , 2000 ,**

**OPERATOR** McElvain Oil & Gas Properties, Inc.

**CONTRACT AREA** TOWNSHIP 25 NORTH, RANGE 3 WEST, N.M.P.M.

**Section 25: S/2**

**Limited to those depths below the base of the Pictured**

**Cliffs formation**

**COUNTY OR PARISH OF** Rio Arriba **STATE OF** New Mexico

COPYRIGHT 1982 - ALL RIGHTS RESERVED  
AMERICAN ASSOCIATION OF PETROLEUM  
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT  
WORTH, TEXAS, 76137-2791, APPROVED FORM,  
A.A.P.L. NO. 610 - 1982 REVISED

## Exhibit "A"

Attached to and made a part of that certain Operating Agreement dated December 1, 2000 by and among McElvain Oil & Gas Properties, Inc., as Operator, and DJ Simmons Company Limited Partnership, et al, as Non-Operators

### I. LANDS SUBJECT TO OPERATING AGREEMENT

Township 25 North, Range 3 West  
Section 25: S/2  
Containing 320 acres, more or less  
Rio Arriba County, New Mexico

### II. RESTRICTIONS, IF ANY, AS TO DEPTHS OR FORMATIONS

All depths below Pictured Cliffs Formation

### III. ADDRESSES AND PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES TO THIS AGREEMENT

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

**OPERATOR**

*The cost of operations conducted under this Agreement and the revenue received from the sale of production from wells drilled, completed or recompleted and produced hereunder shall be shared in the following proportions subject to:*

- (a) The right to elect regarding participation in subsequent operations as provided under Article VI. B. 2. hereof; and,
- (b) The obligation of each party for payment of its respective shares of fees and taxes, royalties, overriding royalties and other lease burdens due on its share of the production

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

50.000%

D. J. Simmons Company Limited Partnership  
1009 Ridgeway Place  
Farmington, NM 87401

25.000%

Forcenergy Onshore, Inc.  
c/o Forest Oil Company  
1600 Broadway, Suite 2200  
Denver, CO 80202

12.500%

Herbert Kai  
P. O. Box 500  
Rilliot, Arizona 85654

9.375%

Dugan Production Corporation  
709 East Murray Drive  
Farmington, NM 87499

3.125%

#### **IV. OIL & GAS LEASES SUBJECT TO THIS AGREEMENT**

A.	Lessor:	Huntington T. Walker, et ux	
	Original Lessee:	T. H. McElvain Oil & Gas Limited Partnership	
	Lease Date:	September 20, 2000	
	Current WI Owner:	T. H. McElvain Oil & Gas Limited Partnership	100.00%
	Description:	<u>Township 25 North, Range 3 West</u> Section 25: SW/4	
	Royalty:	20.00%	
	Overriding Royalty:	None	
B.	Lessor:	Donald G. Parsons Profit Sharing Trust	
	Original Lessee:	T. H. McElvain Oil & Gas Limited Partnership	
	Lease Date:	October 7, 2000	
	Current WI Owner:	T. H. McElvain Oil & Gas Limited Partnership	100.00%
	Description:	<u>Township 25 North, Range 3 West</u> Section 25: SW/4	
	Royalty:	20.00%	
	Overriding Royalty:	None	
C.	Lessor:	James B. Fullerton, et ux	
	Original Lessee:	T. H. McElvain Oil & Gas Limited Partnership	
	Lease Date:	September 20, 2000	
	Current WI Owner:	T. H. McElvain Oil & Gas Limited Partnership	100.00%
	Description:	<u>Township 25 North, Range 3 West</u> Section 25: SW/4	
	Royalty:	20.00%	
	Overriding Royalty:	None	
D.	Lessor:	USA NM-105189	
	Original Lessee:	D. J. Simmons Company Limited Partnership	
	Lease Date:	September 1, 2000	
	Current WI Owner:	D. J. Simmons Company Limited Partnership	100.00%
	Description:	<u>Township 25 North, Range 3 West</u> Section 25: N/2SE/4	
	Royalty:	12.50%	
	Overriding Royalty:	None	
E.	Lessor:	Floyd E. Edwards, et ux	
	Original Lessee:	Kenai Oil & Gas, Inc.	
	Lease Date:	April 16, 1980	
	Current WI Owner:	Forcenergy Onshore, Inc.	50.00%
		Herbert Kai	37.50%
		Dugan Production Corporation	12.50%
	Description:	<u>Township 25 North, Range 3 West</u> Section 25: S/2SE/4	
	Royalty:	12.50%	
	Overriding Royalty:	3.25%	