

**T. H. McElvain Oil & Gas Limited Partnership**  
**McElvain Oil & Gas Properties, Inc., sole General Partner**  
1050 17<sup>th</sup> STREET, SUITE 1800  
DENVER, COLORADO 80265

MONA L. BINION, CPL  
LAND MANAGER  
e-mail [monab@mcelvainoilandgas.com](mailto:monab@mcelvainoilandgas.com)

TELEPHONE 303-893-0933 EXT.306  
FAX 303-893-0914  
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April 30, 2001

TO WORKING INTEREST OWNERS  
(See Attached Addressee List)

Re: Cougar Com #32-2 Well Proposal  
Township 26 North, Range 2 West  
Section 32: SE/4  
Rio Arriba County, New Mexico

Gentlemen:

McElvain Oil & Gas Properties, Inc., as sole general partner and Operator in behalf of T. H. McElvain Oil & Gas Limited Partnership ("McElvain") hereby proposes the drilling of a Dakota/Mesaverde test well to be at a legal location in the SE/4 of Section 32, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$996,640 which is detailed on the enclosed McElvain Authority for Expenditure. Pursuant to McElvain's review of the records reflects the ownership of the S/2 of Section 32 as the dedicated proration unit to be as follows:

T.H. McElvain Oil & Gas Limited Partnership	34.213877% (*)
T.H. McElvain Oil & Gas Limited Partnership / Noseco Corporation	12.688938% (**)
T.H. McElvain Oil & Gas Limited Partnership / Neumann Family Trust	10.047855% (**)
Cougar Capital LLC	6.842776%
James Raymond	5.263674%
Pena Blanca Corp.	2.631836%
Big Snowy Exploration Ltd	2.631836%
Joe Elledge	1.052735%
Mesa Grande Resources, Inc.	3.426522%
Gavilan Dome Properties	8.114013%
Johansen Energy Partnership	.585938%
Dugan Production Corporation	12.500000%
Williams Production Company	0.000000% (***)

(\*)Interests shown includes direct leasehold of party plus proportionate share of 2.636734% interest of NM&O Operating Company assumed under individual farmout arrangement to McElvain, et al.

(\*\*)Interest shown subject to title dispute affecting proposed operation which is pending resolution under case filed in District Court of Rio Arriba County, New Mexico.

(\*\*\*)Uncertainty as to status of entitlement to reversionary rights in favor of Williams Production Company reflected in title chain to one of the subject leases.

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12691 Exhibit No. 3  
Submitted by:  
McElvain Oil & Gas Properties, Inc.  
Hearing Date: July 12, 2001

To Working Interest Owners  
Cougar Com #32-2 Well  
April 30, 2001  
Page 2

A breakdown of tract ownerships and recap of spacing unit totals is enclosed for your review and information. An Operating Agreement prepared on AAPL Model form 610-1982 to govern operations across the designated spacing unit at depths from the base of the Pictured Cliffs formation to the base of the Dakota formation has been prepared and is also enclosed herewith for your review and execution.

We request that you review all of the enclosed materials relative to this proposal and proceed as follows:

- Indicate your election regarding participation on the enclosed Election Page, execute both copies in the space provided and return one to the undersigned;
- If your election is to participate, also execute both copies of the enclosed Authorization for Expenditure and return one copy to the undersigned along with a summary of your well reporting requirements (blank form is enclosed for your convenience, if needed);
- Execute the enclosed Operating Agreement and extra signature page thereto, returning the extra signature page fully executed to the undersigned

Telefax copies of the executed documents will be accepted at:

**McElvain Oil & Gas Properties, Inc.**  
**(303) 893-0914**  
**Attention: Mona L. Binion**

provided that original copies are delivered promptly thereafter.

The proposed test well described herein is scheduled in this program to commence mid year 2001 and in light of the circumstances and in order to avoid additional delays which could arise from weather conditions or sensitive surface restrictions, we respectfully request that you review and respond to this proposal at your earliest possible convenience. If you have any questions concerning this proposal, please feel free to contact the undersigned.

Very truly yours,

**T. H. McElvain Oil & Gas Limited Partnership**  
**By McElvain Oil & Gas Properties, Inc., sole General Partner**

Mona L. Binion, CPL  
Land Manager

MLB/idi

Encls.

**WORKING INTEREST OWNERS**  
**Cougar Com #32-2 Well**

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

Gavilan Dome Properties  
1800 Cedarwood Drive  
Moraga, CA 94556

Cougar Capital, LLC  
200 East Sunset, Suite E  
El Paso, Texas 79922

Johansen Energy Partnership  
P. O. Box 1773  
Witefish, MT 59937

James M. Raymond  
P. O. Box 291445  
Kerville, TX 78029-1445

Dugan Production Corporation  
709 East Murray Drive  
Farmington, NM 87499

Pena Blanca Corportion  
1050 17<sup>th</sup> Street, Suite 1800  
Denver, CO 80265

Noseco Corporation  
7400 Lakeside Drive  
Reno, Nevada 89511

Big Snowy Exploration Limited Partnership  
1050 17<sup>th</sup> Street, Suite 1800  
Denver, CO 80265

Peter C. Neumann, Trustee  
Neumann Family Trust  
One Elm Court Street  
Reno, Nevada 89501

Joe Elledge  
P. O. Box 111  
Farmington, NM 87401

Williams Production Company  
P. O. Box 3102  
Tulsa, OK 74101

Mesa Grande Resources, Inc.  
1318 Philtower Bldg  
Tulsa, OK 74103

## ELECTION PAGE

Cougar Com #32-2 Well

April 30, 2001

\_\_\_\_\_  
YES, I/We do hereby elect to participate in the drilling of the Cougar Com #32-2 Well as a Dakota / Mesaverde test to be located in the SE/4 of Section 32, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

- *execute and return the Operating Agreement signature page*
- *execute and return the Authority for Expenditure*
- *complete and return the well reporting summary or submit your firm's summary*

\_\_\_\_\_  
NO, I/We do hereby elect NOT to participate in the drilling of the Cougar Com #32-2 Well as a Dakota / Mesaverde test to be located in the SE/4 of Section 32, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

As an alternative to participation, I/We hereby offer support to McElvain and the participating parties hereunder the following:

*(Please select one of the following if your election is NOT to participate)*

\_\_\_\_\_  
I/We hereby offer to farmout my/our working interest in the proposed well on mutually acceptable terms to be negotiated among the parties and, therefore, request a proposal of terms from McElvain; OR,

\_\_\_\_\_  
I/We hereby offer to sell my/our interest in the proposed well as an alternative to participation and hereby request a proposal of sale terms from McElvain; OR,

\_\_\_\_\_  
I/We hereby offer to execute a mutually acceptable Operating Agreement which shall reflect an election against my/our working interest as a non-participating, non-drilling party subject to the penalty provisions contained therein.

### Telefax executed documents to

Mona Binion

(303) 893-0914

### Mail original executed documents to

Mona Binion

McElvain Oil & Gas Properties, Inc.

1050 17<sup>th</sup> Street, Suite 1800

Denver, CO 80265

**Cougar #32-2**  
**SE/4 of Section 32**  
**Township 26 North, Range 2 West**  
**S/2 of Section 32**

Tract 1  
 SW Section 32  
 NM-97827  
 160 acres / 320 acres (50%)

Tract 2  
 SE Section 32  
 NM-01806  
 160 acres / 320 acres (50%)

Owner	Interest Source	Tract 1		Tract 2		Totals	
		WI	TPF WI	WI	TPF WI	Interest	Company
T. H. McElvain Oil & Gas Limited P'tshp	Direct	65.00000%	32.500000%			32.500000%	
	(NM&O Farmout)			3.427754%	1.713877%	1.713877%	34.213877%
T. H. McElvain Oil & Gas / Noseco Corp.	Direct			25.377878%	12.688938%	12.688938%	12.688938%
T. H. McElvain Oil & Gas / Neumann Family Tr.	Direct			20.095710%	10.047855%	10.047855%	10.047855%
Cougar Capital, LLC	Direct	13.00000%	6.500000%			6.500000%	
	(NM&O Farmout)			0.685551%	0.342776%	0.342776%	6.842776%
James Raymond	Direct	10.00000%	5.000000%			5.000000%	
	(NM&O Farmout)			0.527347%	0.263674%	0.263674%	5.263674%
Pena Blanca	Direct	5.00000%	2.500000%			2.500000%	
	(NM&O Farmout)			0.263673%	0.131836%	0.131836%	2.631836%
Big Snowy Exp	Direct	5.00000%	2.500000%			2.500000%	
	(NM&O Farmout)			0.263673%	0.131836%	0.131836%	2.631836%
Joe Elleledge	Direct	2.00000%	1.000000%			1.000000%	
	(NM&O Farmout)			0.105469%	0.052735%	0.052735%	1.052735%
Gavilan Dome	Direct			16.228027%	8.114013%	8.114013%	8.114013%
Mesa Grande Resources, Inc.	Direct			6.853043%	3.426522%	3.426522%	3.426522%
Johansen Energy	Direct			1.171875%	0.585938%	0.585938%	0.585938%
Dugan Production	Direct			25.00000%	12.500000%	12.500000%	12.500000%
Totals		100.000000%	50.000000%	100.000000%	50.000000%	100.000000%	100.000000%

**MC ELVAIN OIL AND GAS PROPERTIES, INC. - AUTHORITY FOR EXPENDITURE  
SUMMARY FOR EXPENDITURES  
EXPLORATION & DEVELOPMENT**

**APE NUMBER:**  
**DATE:** 4/19/2001  
**WELL NAME:** Cougar Com #32-2  
**LOCATION:** T26N-R2W SEC. 32 SE/4  
**COUNTY:** RIO ARRIBA COUNTY  
**STATE:** NEW MEXICO  
**PROPOSED DEPTH:** 8400'  
**PURPOSE OF AFE:** Drill Mesaverde/Dakota test well

Intangible Drilling Costs:	\$433,350	
Tangible Drilling Costs	\$11,040	
<b>SUB TOTAL TO CASING POINT</b>		<b>\$444,390</b>
Plugging and abandonment cost	\$20,000.00	
<b>TOTAL DRY HOLE COSTS</b>	<b>\$464,390.00</b>	
Intangible Completion Costs:	\$438,850	
Tangible Completion Costs:	\$140,850	
<b>TOTAL COMPLETION COSTS:</b>		<b>\$579,700</b>
<b>TOTAL COMPLETED WELL COSTS:</b>		<b>\$1,024,090</b>
Facilities		
Land, Geological, Geophysical, Prospect		
<b>TOTAL THIS AFE:</b>		<b>\$1,024,090</b>

**APPROVALS**

<b>COMPANY:</b>	T. H. McElvian Oil & Gas Ltd.	<b>WORKING INTEREST:</b>	34.213877%
<b>BY:</b>	By: McElvain Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	<b>DATE:</b>	5/2/01
<b>COMPANY:</b>	Noseco Corporation	<b>WORKING INTEREST:</b>	12.688938%
<b>COMPANY:</b>	or T. H. McElvian Oil & Gas Ltd. by Farmout By: McElvain Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	<b>DATE:</b>	5/2/01
<b>COMPANY:</b>	Neumann Family Trust	<b>WORKING INTEREST:</b>	10.047855%
<b>COMPANY:</b>	or T. H. McElvian Oil & Gas Ltd. by Farmout By: McElvain Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	<b>DATE:</b>	5/2/01
<b>COMPANY:</b>	Pena Blanca Corp.	<b>WORKING INTEREST:</b>	2.631836%
<b>COMPANY:</b>	Cougar Capital LLC	<b>WORKING INTEREST:</b>	6.842776%
<b>COMPANY:</b>	James Raymond	<b>WORKING INTEREST:</b>	5.263674%
<b>COMPANY:</b>	Big Snowy Exploration Ltd.	<b>WORKING INTEREST:</b>	2.631836%
<b>COMPANY:</b>	Joe Elledge	<b>WORKING INTEREST:</b>	1.052735%
<b>COMPANY:</b>	Mesa Grande Resources, Inc.	<b>WORKING INTEREST:</b>	3.426522%
<b>COMPANY:</b>	Gavilan Dome Properties	<b>WORKING INTEREST:</b>	8.114013%
<b>COMPANY:</b>	Johansen Energy Partnership	<b>WORKING INTEREST:</b>	0.585938%
<b>COMPANY:</b>	Dugan Production Corporation	<b>WORKING INTEREST:</b>	12.500000%

100.000000%

**M. LVAIN OIL & GAS PROPERTIES, C.**  
**AUTHORITY for EXPENDITURE**  
 April 17, 2001

Cougar Com 32 #2 Mv/Dk SE/4 32-26N-2W	DRY HOLE	COMPLETED WELL
<b>Drilling Intangibles</b>		
Staking, Permitting, Title Work & Survey	16,000	16,000
Location, Road, Damages	27,500	27,500
Footage 8400' @ \$25.00/ft	210,000	210,000
Daywork 4.5 days @ \$7300/day	32,850	32,850
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		
<b>Total Drilling</b>	<b>453,350</b>	<b>433,350</b>

<b>Completion Intangibles</b>		
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
<b>Total Completion</b>	<b>0</b>	<b>438,850</b>

**Total Intangibles      453,350      872,200**

<b>Tangibles</b>		
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
<b>Total Tangibles</b>	<b>11,040</b>	<b>151,890</b>

**Total Well Cost      \$464,390      \$1,024,090**

APPROVALS:

McElvain Oil & Gas Properties, Inc.  Date: 4/17/01