

Armstrong
ENERGY CORPORATION

500 NORTH MAIN STREET, SUITE 1000
P. O. BOX 1973
ROSWELL, NEW MEXICO 88202-1973
TEL 505-625-2222
FAX 505-622-2512
JUL 16 PM 1:21

July 10, 2001

New Mexico Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505-5472

Attention: Ms. Diane Richardson

Re: OCD Bond No. OCD-046

Dear Ms. Richardson:

Enclosed herewith you will find a copy of the June 29, 2001 Portfolio Detail report from Bank of America, which outlines the value of our statewide plugging bond.

Kindly review this report and feel free to contact us if you should have any questions regarding any portion of it.

Sincerely;
Armstrong Energy Corporation

By: 
Henry R. Lucero

Enclosure

Private Bank



Portfolio Detail

Account Name: ARMSTRONG ENERGY/OID ESCROW
Account Number: 70-01-100-0445800

This Statement Covers
Apr. 02, 2001 through June 29, 2001

Units	Description	*Sector	Market Price	Market Value	% of Total	Federal Tax Cost	Unrealized Gain/Loss	Estimated Annual Income	Current Yield
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Municipal Bonds

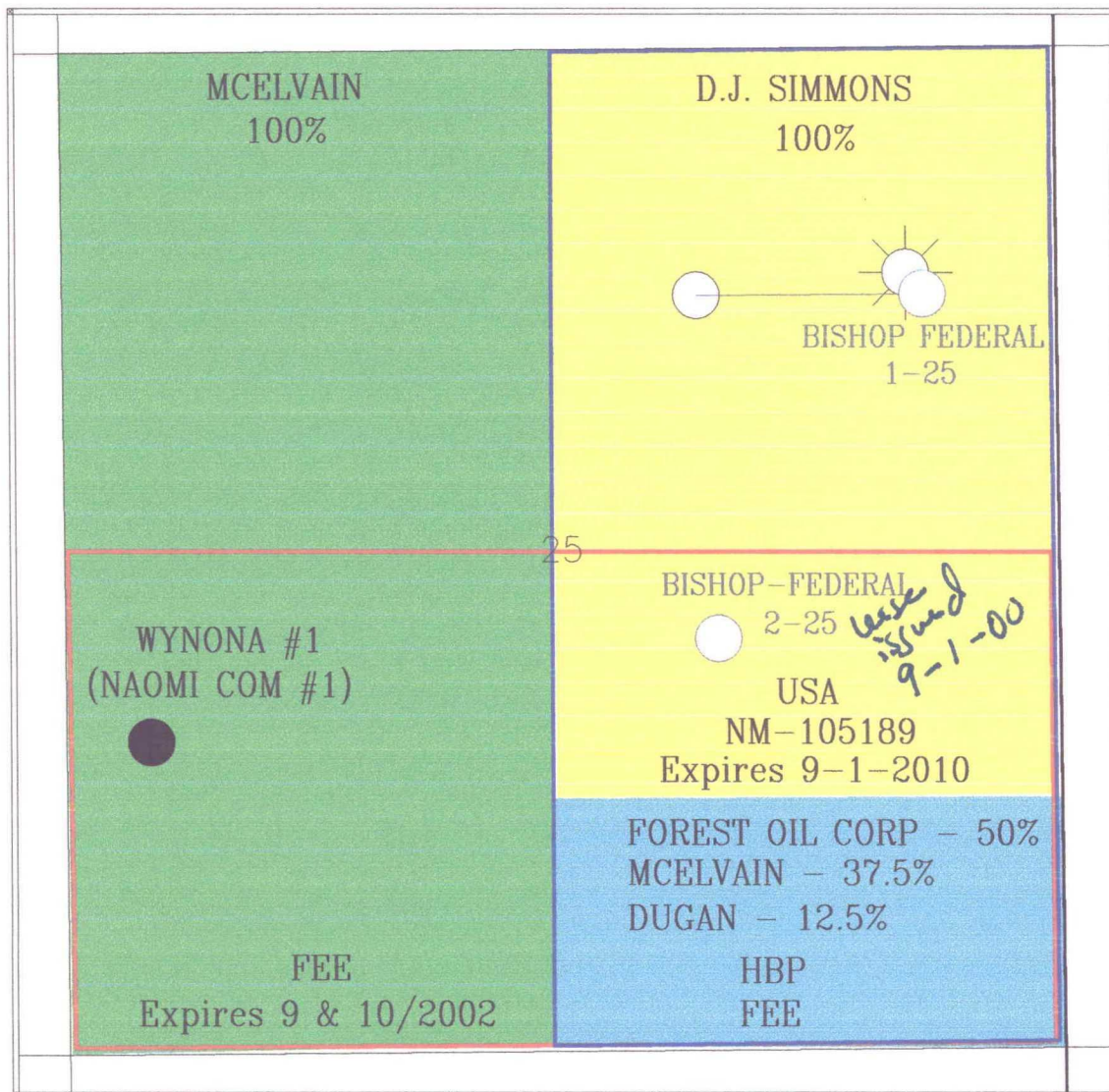
50,000.000	2001 SAN JUAN CNTY N MEX JR COLLEGE G.O. REF BDS DTD 10/01/96 04.800 DUE 09/01/01 NON-CALLABLE FIXED RT NO SINK FUND Moody's: AAA S&P: AAA		100.334	\$50,167.00	100.0%	\$50,000.00	\$167.00	\$2,400.00	4.8%
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Total Municipal Bonds				\$50,167.00	100.0%	\$50,000.00	\$167.00	\$2,400.00	4.8%
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Total Fixed Income				\$50,167.00	100.0%	\$50,000.00	\$167.00	\$2,400.00	4.8%
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Total Portfolio				\$50,167.00	100.0%	\$50,000.00	\$167.00	\$2,400.00	4.8%
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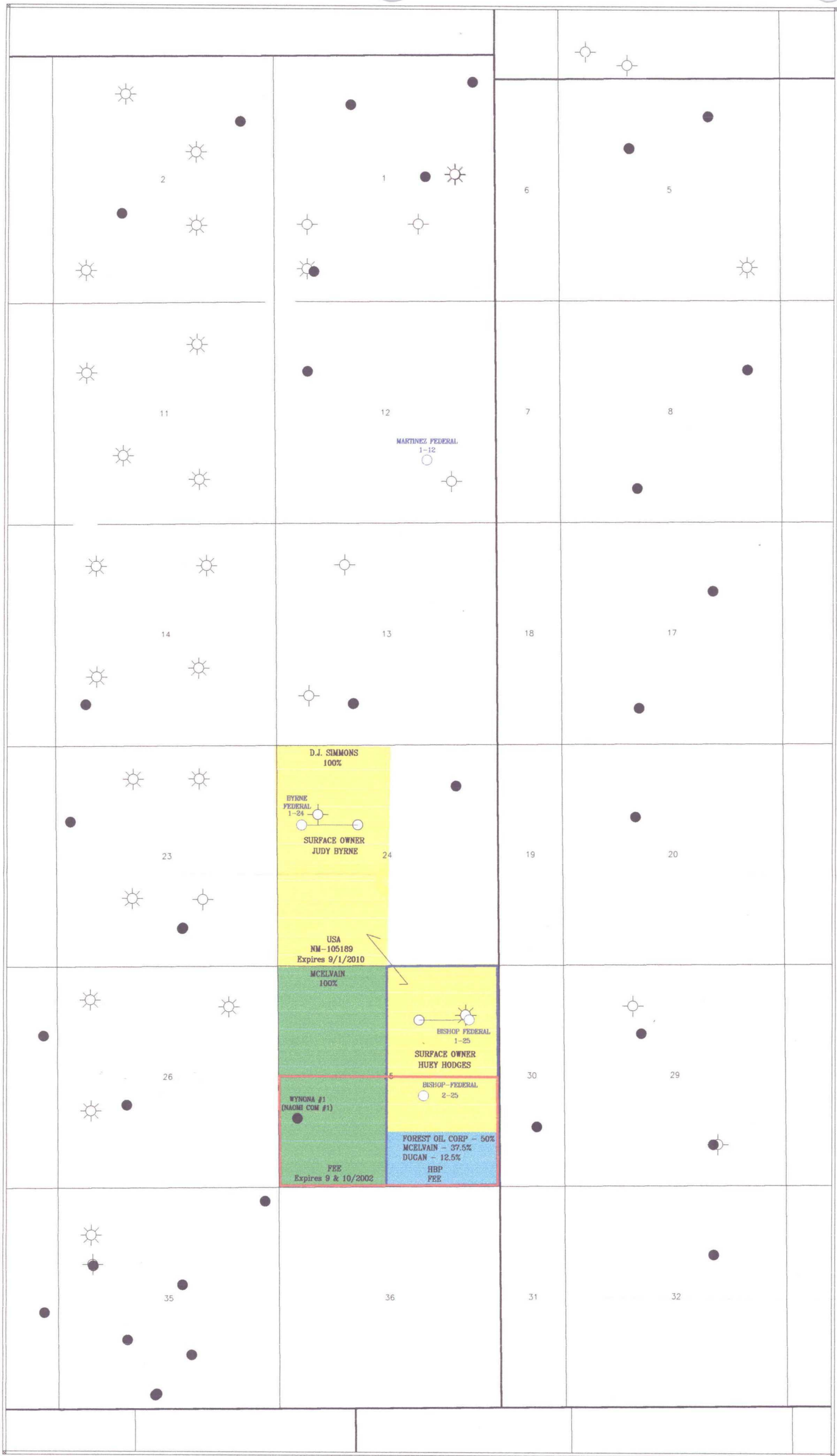
R 3 W



T
25
N

D.J. Simmons, Inc.		
LAND PLAT SECTION 25-T25N-R3W Rio Arriba County, New Mexico		
Lisa		10/30/2001
	Scale 1:12000.	

LEGEND	
	D.J. SIMMONS LEASE ACREAGE
	MCELVAIN OIL & GAS LEASE ACREAGE
	FOREST OIL ETAL LEASE ACREAGE
	D.J. SIMMONS WELL LOCATION
	D.J. SIMMONS PROPOSED GPU
	MCELVAIN PROPOSED GPU



R3W

R2W

D.J. Simmons, Inc.		
LEASE OWNERSHIP MAP RIO ARRIBA COUNTY, NEW MEXICO		
Drawn by LG	Scale 1:30000	10/30/2001

LEGEND	
	D.J. SIMMONS INC. LEASE ACREAGE
	MCELVAIN OIL & GAS LEASE ACREAGE
	FOREST OIL ETAL LEASE ACREAGE
	D.J. SIMMONS PROPOSED GPU
	MCELVAIN PROPOSED GPU
	D.J. SIMMONS WELL LOCATION

COMPLETE
Sequence of Events

1. *On July 19th, 2000 at the BLM sale in Santa Fe, Simmons was top bidder on Tract #200007024. This tract covered Section 24: W/2 and Section 25: NE/4, N/2SE/4, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*
2. *Lease #NM-105189 was issued to Simmons effective September 1, 2000. This lease covered Section 24: W/2 and Section 25: NE/4, N/2SE/4, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*
3. *McElvin sent a Proposal Letter dated November 10th, 2001. McElvain proposed to re-enter the Wynona #1 well in the NW/4SW/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico and complete same as Mesaverde producer. There was no AFE or Well Procedure included at that time.*
4. *Phone conversation of November 15th, 2000, between Lisa Gusek of Simmons and Mona Binion of McElvain requesting an AFE and Well Procedure. And a conversation with Jane Estes-Jackson of McElvain where Lisa requested copies of the logs from the Wynona #1 well located in the SW/4NW/SW/4 of Section 25, Township 25 North Range 3 West, N.M.P.M. Rio Arriba County, New Mexico. Logs were received November 15th, 2000 by FAX as well as a note stating that McElvain's engineer had not written the procedure yet.*
5. *McElvain cover letter dated November 20th, 2000 enclosed AFE and Well Procedure.*
6. *Phone conversation of December 14th, 2000, between Mona Binion and myself. The conversation was about lease ownership in the S/2SE/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico and if any of the owners had agreed to participate in the Naomi Com #1 well located in the SW/4NW/4SW/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*
7. *Phone conversation the first week of January, 2001, between Steve Shefte and myself at which time I asked him for some geology to support a S/2 spacing unit in Section 25 Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico. I asked if he could call Lisa Gusek and talk with her about the geology. Steve Shefte stated it was not standard procedure to send maps.*
8. *Holland and Hart letter dated March 15, 2001, Application for Compulsory Pooling.*
9. *McElvain letter dated March 28th, 2001 with an Election page to participate, AFE, Well Re-completion Procedure and JOA with Exhibits.*
10. *Phone conversation of March 30th, 2001, between Steve Shefte and Lisa Gusek. The discussion was centered around why Simmons opposed their Spacing Unit in the S/2 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico. Lisa simply explained to Steve that Simmons wanted the option to complete the Mesaverde in*

our Bishop #25-2 well in the NW/4SE/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico, should the Dakota be productive or non-productive.

11. *April 5th, 2001, conversation at a meeting in Socorro, New Mexico, Steve Shefte commented to Lisa Gusek “why should McElvain take 100% of the risk and pay 100% of the cost to prove up Simmons acreage”.*

12. *Phone conversation of May 16th, 2001, the day before the first scheduled hearing, between Mona Binion and myself where we discuss ways we could resolve our differences before going to hearing.*

13. *Meeting on May 17th, 2001 at the Oil Conversation Division office Santa Fe, with Counsel and company personnel from both companies, the morning of the hearing. We were unable to come to an equitable agreement.*

14. *Phone conversation on the 17th of May, 2001 between John Byrom of Simmons and Herbert Kai, working interest owner in the S/2SE/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico. Herbert Kai indicated that he had just sold his interest to McElvain.*

15. *June 7th, 2001 we sent by certified mail a proposal letter to Forest Oil Corporation, T. H. McElvain Oil & Gas Limited Partnership and Dugan Production Corporation proposing two wells, the Bishop #25-1 in the NE/4 of Section 25 and the Bishop #25-2 in the NW/4SE/4 of Section 25 and forming an E/2 Spacing Unit. This letter set out the terms for a JOA which would be furnished at a latter date after the participants had agreed to participate, and accompany this letter was a Drilling and Completion Plan and AFEs for the Bishop #25-1 and a set for the Bishop #25-2 wells, in Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*

16. *On or about June 14, 2001, Simmons received by Certified Mail a letter from T. H. McElvain Oil & Gas Limited Partnership proposing a Mesaverde well in the NW/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico, the Naomi Com #2. With this letter we received a JOA with exhibits A thru F and an AFE.*

17. *On August 6, 2001, Simmons sent out a letter to Forest, McElvain and Dugan, by Certified Mail. This letter was to clarify the percentage of costs for the drilling and completion of the Mesaverde formation in the Bishop #25-1 and #25-2 wells in Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*

18. *Sometime around August 9, 2001, I had a conversation with Mr. Chuck Rasey with Forest Oil Corporation. He asked me if the commission had made a ruling on the May 17, 2001, Hearing. I told him they had not, but I would advise him when and if they did. He said Forest would be willing to do something, depending on the outcome of the Hearing.*

19. *September 13th, 2001, Simmons FAXed and by certified mail sent a letter to Forest, McElvain and Dugan setting out the interest as to the Mesaverde formation for the Bishop Federal #25-1 well in the NE/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico. This letter included an AFE for drilling and completing the Mesaverde formation.*

20. *September 13, 2001, Simmons sent an offer to settle by FAX and Certified mail to McElvain. Simmons offer was to sell to McElvain our interest in the N/2SE/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico, as to depths from 750 feet below the Huerfanito Bentonite Marker to the Base of the Mesaverde formation. And in addition, form two 160 acre units in the N/2 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*

21. *October 3rd, 2001 Simmons received a letter from McElvain agreeing it would be beneficial to reach an agreement concerning development of the Mesaverde under the N/2 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*

22. *Letter dated October 11, 2001, from Holland & Hart, law firm for McElvain, Application for Compulsory Pooling, pooling the N/2 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*

23. *October 25, 2001, Simmons FAXed and sent a letter overnight to McElvain offering to settle our differences. We asked for 2 special 160 units in the N/2 and we would allow them to have their 320 Unit, S/2 in Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*

Sequence of Events

From date of first written and telephonic contact.

Starting November 10th, 2000 to present.

Initiated by McElvain concerning the Naomi Com #1 well

1. *McElvain sent a Proposal Letter dated November 10th, 2000. McElvain proposed to re-enter the Wyonana #1 well in the NW/4SW/4 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico and complete same as Mesaverde producer. There was no AFE or Well Procedure included at that time.*
2. *Letter dated March 15, 2001, from Holland & Hart, law firm for McElvain, Application for Compulsory Pooling, pooling the S/2 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*
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5. *April 5th, 2001, conversation at a meeting in Socorro, New Mexico, Steve Shefte commented to Lisa Gusek “why should McElvain take 100% of the risk and pay 100% of the cost to prove up Simmons acreage”.*
6. *Phone conversation of May 16th, 2001, the day before the first scheduled hearing, between Mona Binion and myself where we discuss ways we could resolve our differences before going to hearing.*
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2. *McElvain cover letter dated November 20th, 2000 enclosed requested AFE and Well Procedure.*
3. *Phone conversation of December 14th, 2000, between Mona Binion and Ed Dunn. The conversation was about lease ownership in the S/2SE/4 of Section 25, Township 25 North -- Range 3 West, N.M.P.M., Rio Arriba County, New Mexico and if any of the owners had agreed to participate in the Naomi Com #1 well located in the SW/4NW/4SW/4 of Section 25, Township 25 North -- Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.*
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8. *October 3rd, 2001 Simmons received a letter from McElvain agreeing it would be beneficial to reach an agreement concerning development of the Mesaverde under the N/2 of*

***Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.
No proposals were suggested by McElvain.***

***9. Letter dated October 11, 2001, from Holland & Hart, law firm for McElvain,
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Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.***

***10. October 25, 2001, Simmons FAXed and sent a letter overnight to McElvain offering
to settle our differences. We asked for 2 special 160 units in the N/2 and we would drop our
appeal concerning their 320 Unit, S/2 in Section 25, Township 25 North – Range 3 West,
N.M.P.M., Rio Arriba County, New Mexico. our offer was held open until October 31,
2001.***

Sequence of Events

From date of first written and telephonic contact.

Starting November 10th, 2000 to present.

Initiated by Simmons concerning the Bishop #25-1 & 25-2 Wells

1. On July 19th, 2000 at the BLM sale in Santa Fe, Simmons was top bidder on Tract #200007024. This tract covered Section 24: W/2 and Section 25: NE/4, N/2SE/4, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico.
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Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico, as to depths from 750 feet below the Huerfanito Bentonite Marker to the Base of the Mesaverde formation. And in addition, form two 160 acre units in the N/2 of Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County, New Mexico. The offer was held open until 5:00 P.M., September 19th, 2001.

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McElvain Oil & Gas Properties, Inc.

1050 17TH STREET, SUITE 1800
DENVER, COLORADO 80265

MONA L. BINION, CPL
LAND MANAGER
e-mail monab@mcelvainoilandgas.com

TELEPHONE 303-893-0933 EXT.306
FAX 303-893-0914
Cellular 303-809-2058

VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED

November 10, 2000

D. J. Simmons Co. LP
1009 Ridgeway Pl
Farmington, NM 87401

Benson-Montin-Greer Drilling Corporation
501 Airport Drive
Farmington, New Mexico 87401-2466

3TEC Energy Corp.
Two Shell Plaza, 777 Walker, Suite 2400
Houston, Texas 77002

Re: Re-Entry Proposal
Wynona #1 Well
Township 25 North, Range 3 West
Section 25: SW/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 to re-enter an oil and gas well which has been previously plugged and abandoned formerly known as the Wynona #1 Well located SE/4SW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico, in order to attempt a completion of the Mesaverde formation therein for the production of oil and gas from the S/2 of said Section 25 as the dedicated proration unit.

The estimated cost to complete the well, as proposed, is \$364,150, which is detailed on the enclosed McElvain Authority for Expenditure dated September 6, 2000. Pursuant to McElvain's review of the records, the ownership of the dedicated proration unit to be as follows:

T.H. McElvain Oil & GAS Limited Partnership	50.00%
D. J. Simmons Co. LP	25.00%
Benson-Montin-Greer Drilling Corporation	12.50%
3TEC Energy Corp.	12.50%

D. J. Simmons Co. LP

November 10, 2000

Page 2

An Opinion of Title is being ordered to cover the proration unit and an Operating Agreement to govern operations across the dedicated proration unit is being prepared using AAPL Model form 610-1982 revised and will be transmitted to you for review and execution in the very near future.

We request that you review the enclosed proposal and indicate your election regarding participation and execute the enclosed Election Page in the space provided and return one copy to this office at your earliest possible convenience. If your election is to participate, we ask that you also execute the enclosed Authorization for Expenditure and return one copy to this office along with your executed Election Page. 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.

McElvain is an active operator in this area and is currently drilling and completing new wells and re-entering and re-completing old wells as an effort to explore and develop the Mesaverde formation. At this point we have under contract rig(s) and equipment which are adequate to perform the proposed operation, however, this equipment must be kept active in order to maintain contract rights for their use. The proposed re-entry described herein is scheduled in this program to commence prior to year-end 2000 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. We look forward to hearing from you soon.

Very truly yours,

McElvain Oil & Gas Properties, Inc.



Mona L. Binion, CPL
Land Manager

MLB/idi

Encls.

ELECTION PAGE
Re-Entry – Mesaverde Completion
Wyonona #1 Well
November 10, 2000

_____ **YES, I/We do hereby elect to participate in the proposed re-entry and Mesaverde formation recompletion in the oil and gas well located in the SE/4SW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico formerly known as the Wynona #1.**

_____ **NO, I/We do hereby elect NOT to participate in the proposed re-entry and Mesaverde formation recompletion in the oil and gas well located in the SE/4SW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico formerly known as the Wynona #1. 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 and election against my/our working interest as a non-participating, non-drilling party subject to the penalty provisions contained therein.**

McElvain Oil & Gas Properties, Inc.

1050 17TH STREET, SUITE 1800
DENVER, COLORADO 80265

MONA L. BINION, CPL
LAND MANAGER
e-mail monab@mcelvainoilandgas.com

TELEPHONE 303-893-0933 EXT.306
FAX 303-893-0914
Cellular 303-809-2058

November 20, 2000

D. J. Simmons Co. LP
1009 Ridgeway Pl
Farmington, NM 87401

Benson-Montin-Greer Drilling Corporation
501 Airport Drive
Farmington, New Mexico 87401-2466

3TEC Energy Corp.
Two Shell Plaza, 777 Walker, Suite 2400
Houston, Texas 77002

Re: Recompletion Procedure
Re-Entry Proposal (f/k/a Wynona #1)
Naomi Com #1
Township 25 North, Range 3 West
Section 25: SW/4
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 with that proposal was a detailed Authorization for Expenditure that represented cost estimates but did not give any specific detail regarding operational procedures for the proposal.

For your information and review to help in evaluating this proposal, and at the request of 3Tec Energy, we have enclosed herewith a Recompletion Procedure outline for the subject re-entry and re-completion.

As previously explained, this re-completion operation is scheduled for early December, therefore, your review and response at your earliest convenience would be greatly appreciated.

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.

McE MAIN OIL & GAS PROPERTIES INC.

Naomi Com #1

Recompletion Procedure

November, 2000

LOCATION: SE/SW 25-T25N-R3W
Rio Arriba County

API#: 30-039-24222

TD: 8113' PBD: 8071' KB: 13'

Purpose of Work: To recomple in Point Lookout and Menefee sections

CASING:

9 5/8" 36# limited service @ 319' in 12 1/4" hole

Cemented with 200 sacks Class B +2% CaCl + 1/4#/sk flocc

Circulated to surface

5 1/2" 17# N-80/J-55 @ 8120' in 8 3/4" hole..DV Tool @ 5910' & 3569'

1st stage cemented with 462 sxs(660 cu ft) 50/50 POZ +2% gel +6 1/4 #/sk Gilsonite
+6#/sk NaCl

TOC @ 6642' (bond log)

2nd stage 367 sxs (777 cu ft) 65/35 POZ +6% Gel +12 1/4#/sk Gilsonite..Tailed with 50
sxs (59 cu ft) Class B neat

TOC 3924' (Calculated @ 60%)

3rd stage 525 sxs (1114 cu ft) 65/35 POZ +6% Gel +12 1/4#/sk Gilsonite..Tailed with 50
sxs (59 cu ft) Class B neat

Circulated to surface.

PERFORATIONS:

GALLUP:

Upper: 6760'- 6904' 1 shot per 2 feet

Lower: 6950' - 7056' 1 shot per 2 feet

DAKOTA:

7824' 27'

7895'-98'

7901'-05'

7987.5'-96.5'

PLUGGING INFORMATION:

Plug 1: Surface - 50'

Plug 2: 220' - 370'

Plug 3: 1640' - 1794'

Plug 4: 2950' - 3126'

Plug 5: 3280' - 3349'

Plug 6: 5010' - 5180'

Plug 7: 5970' - 6070' (retainer)

Plug 8: 6640' - 6735' (CIBP)

PROCEDURE:

1. MI & RUSU
2. Remove dry hole marker and install well head
3. RU power swivel, pump and tank for drilling
4. Drill out six cement plugs down to TOC at 5970'
5. Circulate hole clean with 2% KCl water
6. Pressure test to 3000 psig for 30 minutes
7. POOH with tubing and BHA
8. RUWL
9. Log GR/CBL/CCL/VDL from PBTD at 5970' to 100' above cement top
10. RIH with perforating guns
11. Perforate with decentralized guns(minimum standoff) the following CNL depths:
5603', 5605', 5608'
5627', 5629', 5631', 5633', 5635', 5637', 5639', 5641', 5643'
5665', 5667', 5669', 5671'
5678', 5680', 5682', 5684', 5686', 5688', 5690', 5692', 5694', 5696', 5698'
5770', 5672', 5674'
5802'
(31 shots..70' net pay)
12. RIH with tubing and packer
13. Set packer at $\pm 5550'$
14. Establish injection rate with 2% KCl water
15. Break down perforations with 1500 gallons 15% HCl and 48 ball sealers
16. Release packer and run past perforations
17. POOH to $\pm 5550'$ and reset packer
18. Establish final injection rate with 2% KCl water and monitor falloff pressures
19. POOH with tubing and packer
20. Frac well as per separate procedure
21. RUWL
22. RIH and set RBP at $\pm 5540'$
23. Fill hole and pressure test to 1000 psig
24. RIH with dump bailer and cap RBP with sand
25. RIH with perforating guns
26. Perforate with decentralized guns(minimum standoff) the following CNL depths:
5325', 5328', 5331', 5334', 5337', 5340', 5343'
5403', 5406', 5409', 5412', 5415', 5418', 5421', 5424', 5427', 5430', 5433', 5436',
5439', 5442', 5445', 5448'
5462', 5465', 5468', 5471', 5474', 5477', 5480', 5483', 5486', 5489', 5492', 5495' &
5498'
(36 holes ..112' net pay)

27. RIH with tubing and packer
28. Set packer at $\pm 5275'$
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35. Frac well as per separate procedure
36. Flow well back until well dies
37. Depending on well bore conditions either circulate sand or bail sand off of RBP
38. Retrieve RBP
39. RIH with tubing and hydrostatic bailer and bail sand to PBTD
40. RIH with notched collar, seating nipple and tubing to $\pm 5650'$
41. ND BOP & NUWH
42. Swab well in if necessary
43. RDSU & MOL

NOTE:
DO NOT USE LIQUID KCl SUBSTITUTE in COMPLETION FLUIDS

HOLLAND & HART LLP
AND
CAMPBELL & CARR
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

SUITE 1
110 NORTH GUADALUPE
SANTA FE, NEW MEXICO 87501-6525
MAILING ADDRESS
P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043
www.hollandhart.com

March 15, 2001

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

TO ALL AFFECTED INTEREST OWNERS

Re: Application of McElvain Oil & Gas, Inc. for compulsory pooling, Rio Arriba County,
New Mexico.

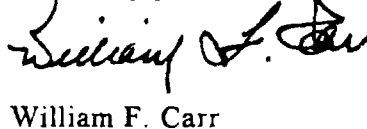
Ladies and Gentlemen:

This letter is to advise you that McElvain Oil & Gas Properties, Inc. has filed the enclosed application with the New Mexico Oil Conservation Division seeking the force pooling of all mineral interests from the base of the Pictured Cliffs formation to the base of the Mesaverde formation in certain spacing and proration units in the S/2 of Section 25, Township 25 North, Range 3 West, N.M.P.M., Rio Arriba County, New Mexico. McElvain proposes to dedicate the referenced pooled unit to its Naomi Well No. 1 (formerly the Wynona Well No. 1) in the SW/4 of said Section 25, which McElvain proposes to reenter and in the Mesaverde formation, Blanco-Mesaverde Pool at a previously approved unorthodox gas well location 1650 feet from the South line and 450 feet from the West line of said Section 25.

This application has been set for hearing before a Division Examiner on April 5, 2001. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Prehearing Statement three days in advance of a scheduled hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,



William F. Carr
Attorney for McElvain Oil & Gas Properties, Inc.

Enclosures

cc: Mona Binion, Land Manager
McElvain Oil & Gas Properties, Inc.

McElvain Oil & Gas Properties, Inc.

1050 17TH STREET, SUITE 1800

DENVER, COLORADO 80265

MONA L. BINION, CPL
LAND MANAGER
e-mail monab@mcelvainoilandgas.com

TELEPHONE 303-893-0933 EXT.306
FAX 303-893-0914
Cellular 303-809-2058

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

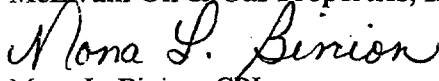
Gentlemen:

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, CPL
Land Manager

MLB/idi
Encls.

WORKING INTEREST OWNERS

Naomi #1

**T. H. McElvain Oil & Gas Limited Partnership
1050 17th 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 17th 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

Completion Intangibles		
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
Total Completion	0	299,650

Total Intangibles

0

299,650

Tangibles		
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
Total Tangibles	0	64,500

Total Well Cost

\$0

\$364,150

APPROVALS:

McElvain Oil & Gas Properties, Inc.

Date:

9/6/00

Approved by: _____ Title: _____

Company: _____

McELVAIN OIL & GAS PROPERTIES, INC.

AUTHORITY for EXPENDITURE

September 6, 2000

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Location Rehab		2,500
5% Contingency		13,900
Total Completion	0	299,650

Total Intangibles

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299,650

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APPROVALS:

McElvain Oil & Gas Properties, Inc.

Date:

9/6/00

Approved by: _____ Title: _____

Company: _____

Mcl VAIN OIL & GAS PROPERTIL , INC.

Naomi Com #1

Recompletion Procedure

November, 2000

LOCATION: SE/SW 25-T25N-R3W
Rio Arriba County

API#: 30-039-24222

TD: 8113' PBSD: 8071' KB: 13'

Purpose of Work: To recomplete in Point Lookout and Menefee sections

CASING:

9 5/8" 36# limited service @ 319' in 12 1/4" hole

Cemented with 200 sacks Class B +2% CaCl + 1/4#/sk floccel

Circulated to surface

5 1/2" 17# N-80/J-55 @ 8120' in 8 3/4" hole..DV Tool @ 5910' & 3569'

1st stage cemented with 462 sxs(660 cu ft) 50/50 POZ +2% gel +6 1/4 #/sk Gilsonite
+6#/sk NaCl

TOC @ 6642' (bond log)

2nd stage 367 sxs (777 cu ft) 65/35 POZ +6% Gel +12 1/4#/sk Gilsonite..Tailed with 50
sxs (59 cu ft) Class B neat

TOC 3924' (Calculated @ 60%)

3rd stage 525 sxs (1114 cu ft) 65/35 POZ +6% Gel +12 1/4#/sk Gilsonite..Tailed with 50
sxs (59 cu ft) Class B neat

Circulated to surface.

PERFORATIONS:

GALLUP:

Upper: 6760'- 6904' 1 shot per 2 feet

Lower: 6950' - 7056' 1 shot per 2 feet

DAKOTA:

7824'-27'

7895'-98'

7901'-05'

7987.5'-96.5'

PLUGGING INFORMATION:

Plug 1: Surface - 50'

Plug 2: 220' - 370'

Plug 3: 1640' - 1794'

Plug 4: 2950' - 3126'

Plug 5: 3280' - 3349'

Plug 6: 5010' - 5180'

Plug 7: 5970' - 6070' (retainer)

Plug 8: 6640' - 6735' (CIBP)

PROCEDURE:

1. MI & RUSU
2. Remove dry hole marker and install well head
3. RU power swivel, pump and tank for drilling
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5. Circulate hole clean with 2% KCl water
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40. RIH with notched collar, seating nipple and tubing to $\pm 5650'$
41. ND BOP & NUWH
42. Swab well in if necessary
43. RDSU & MOL

NOTE:
DO NOT USE LIQUID KCl SUBSTITUTE in COMPLETION FLUIDS

D.J. SIMMONS, INC.

June 7th, 2001

CERTIFIED MAIL-RETURN RECEIPT

Forcenergy Onshore, Inc.
C/O Forest Oil Corporation
1600 Broadway, Suite 2200
Denver, Colorado 80202

COPY

T. H. McElvain Oil & Gas Limited Partnership
1050 17th Street, Suite 1800
Denver, Colorado 80265

Dugan Production Corporation
709 East Murray Drive
Farmington, New Mexico 87499

RE: Two Well Proposal
Bishop Federal #25-1 Well
Bishop Federal #25-2 Well
Township 25 North – Range 3 West, NMPM
Section 25: NE/4
Rio Arriba County, New Mexico

Gentlemen:

D. J. Simmons, Inc. ("Simmons") is proposing the drilling of two (2) test wells. One in the NE/4 of Section 25, the other in the SE/4 of Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico to test all productive formations between the surface of the earth and one hundred feet below the top of the Burro Canyon formation. Well spacing for all formations except the Fruitland Coal and Mesaverde is 160 acres. The Fruitland Coal and Mesaverde spacing is 320 acres. Simmons' main objective is the Dakota formation, however, Simmons is proposing an E/2 unit in the event the Mesaverde is commercially productive.

The Unit percentages in and to the E/2 of Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico are as follows:

D. J. Simmons, Inc.	75.000%
Forcenergy Onshore, Inc.	12.500%
T. H. McElvain Oil & Gas Limited Partnership	9.375%
Dugan Production Corporation	<u>3.125%</u>
	100.000%

Lease ownership as follows:

Section 25: NE/4 and the N/2SE/4

D. J. Simmons, Inc.	100.000%
---------------------	----------

Section 25: S/2SE/4

Forcenergy Onshore, Inc.	50.000%
T. H. McElvain Oil & Gas Limited Partnership	37.500%
Dugan Production Corporation	<u>12.500%</u>
	100.000%

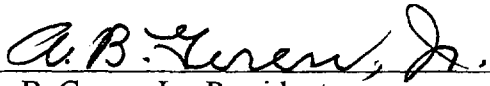
The location for the proposed Bishop Federal #25-1 is in the NE/4 and the location for the Bishop Federal #25-2 is the NW/4SE/4, both in Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico. These wells will be permitted as Dakota tests. The locations have been staked, and the permitting process with the BLM and the New Mexico OCD has begun.

Simmons offers you the options to either participate or farmout your interest in the Mesaverde formation only, and only at such time as Simmons completes that zone for the First Test Well (Bishop Federal #25-1). The Bishop Federal #25-2 would be drilled as a Gallup/Dakota test with partners participating as to their interests. Enclosed herewith for your perusal is Simmons well procedures and AFEs for the subject wells. Should the wells be productive in the Mesaverde formation, and you chose to participate or farmout, Simmons will provide you with a Joint Operating Agreement 610-1982 with a 100/300/300 percent non-consent and a COPAS 1984 Accounting Procedure with a Overhead-Fixed Rate of \$350/\$3,500 per well. In addition, you will be provided with information concerning the drilling and completion of the Bishop Federal #25-1 and #25-2 wells. Simmons would also entertain the purchase of your rights as to the Mesaverde formation only, at a fair market value.

As you are obviously aware, McElvain Oil & Gas Properties, Inc. is proposing the formation of a S/2 Section 25 spacing unit and is in conflict with this proposal. The matter is currently before the New Mexico OCD for a decisions. In the event the OCD should rule in favor of the McElvain proposal, Simmons would propose the formation of a N/2 Section 25 spacing unit for the Mesavere in the Bishop Federal #25-1. Obviously, the ability to commingle or re-complete the Mesaverede as to the Bishop Federal #25-2 would be lost.

In that time is of the essence, your early reply would be most appreciated.

D. J. Simmons, Inc.


A. B. Geren, Jr., President

enclosures

D.J. SIMMONS, INC.

Drilling Plan

Well Name: Bishop Federal 25-1

Surface Location: 1303 FNL x 710 FEL, Section 25, T29N, R9W
Rio Arriba County, NM

Bottom Hole Location: 1303' FNL x 1912' FEL, Section 25

Formation: Gallup/Dakota

Elevation: 7235' GL

Geology:

Formation	Top True Vertical Depth	Top Measured Depth	Probable Content
San Jose	Surface	Surface	
Ojo Alamo	3321	3321	salt water
Fruitland	3421	3421	gas/water
Pictured Cliffs	3607	3607	gas
Chacra	4022	4022	gas
Mesa Verde	5207	5207	gas
Menefee	5305	5305	gas
Point Lookout	5720	5720	gas
Mancos	5960	5960	gas/oil
Gallup	6758	6760	gas/oil
Graneros	7872	8215	gas/oil
Dakota	7979	8366	gas/oil
Burro Canyon	8147	8147	gas/water

Logging Program: Spectral Density, Epithermal Neutron, Induction Log from TD to surface casing shoe.

Drilling Fluid Program:

* Note: all depths are Measured Depths

Interval	Fluid Type	Weight	Viscosity	Fluid Loss
0' – 600'	fresh water spud mud	8.4 – 9.0 ppg	30 - 50 sec	no control
600' – 5207'	2% KCL / PHPA polymer	8.4 – 9.0 ppg	30 - 50 sec	no control
5207' – TD	2% KCL / PHPA polymer	8.4 – 9.0 ppg	30 – 50 sec	10

Casing Program:

* Note: all depths are Measured Depths

Interval	Hole Diameter	Csg Size	Wt.	Grade	Thread
0' – 600'	12 1/4"	9 5/8"	32 ppf	J-55	LTC
0' – 6200'	7 7/8"	5 1/2"	15.50 ppf	J-55	LTC
6200' – 7700'	7 7/8"	5 1/2"	17 ppf	J-55	LTC
7700' – 8715'	7 7/8"	5 1/2"	17 ppf	N-80	LTC

Tubing Program: 0 – 8600', 2 3/8", 4.7 ppf, J55, EUE

BOPE and Wellhead Specifications and Testing:

From surface casing shoe to TD: 9 5/8" 3000 psi threaded casing head with two 2" outlets. 11", 3000 psi double gate BOP and 3000 psi choke manifold (see figures 1 and 2). Pressure test BOPE to 3000 psi and 9 5/8" surface casing to 600 psi prior to drilling surface casing shoe.

For completion operations: 7" x 2 3/8", 3000 psi tree assembly. 7 1/16", 3000 psi double gate BOP system (see figure 3).

General Operation:

- Actuate pipe rams once each day during drilling operations. Actuate blind rams once each trip.
- An upper Kelly cock valve, with handle, will be available on the rig floor to fit each drilling string.
- BOP pit level drill will be conducted weekly for each drilling crew.
- All BOP tests and drills will be recorded in the daily drilling report.
- Blind and pipe rams will be equipped with extension hand wheels.

Cementing Program:

9 5/8" Surface Casing String: Run casing with saw tooth guide shoe on bottom, insert float valve one joint from bottom, and install bowspring centralizers as per Onshore Order #2. Cement with 350 sks class 'G' with 1/4 #/sk flocele and 3% CaCl₂ (413 cf slurry, 100% excess to circulate to surface).

5 1/2" Production Casing String: Run casing with float shoe on bottom, float collar one joint from bottom and centralizers every other joint from TD to 3700'. Install stage collars at 5960' and 3700'. Cement in three stages. Stage 1 (8715' – 5960'); 450 sks class 'G' 50/50 poz with, 2% gel, 1/4 #/sk flocele, 5 #/sk gilsonite. Stage 2 (5960' – 3700'); 370 sks class 'G' 50/50 poz with 2% gel, 1/4 #/sk flocele, 5 #/sk gilsonite. Stage 3 (3700' – 0'); 610 sks class 'G' 50/50 poz with 2% CaCl₂, 6% gel, 1/4 #/sk flocele, 5 #/sk gilsonite. Precise slurry volumes to be calculated from open hole log caliper plug 25% excess. Top of cement to be at surface.

Special Drilling Operations:

Directional Drilling

This well will be directionally drilled to the bottom hole location specified above. A detailed directional plan is supplied as Attachment #1. Directional surveying will be primarily performed with MWD (measurement while drilling) tools.

Additional Information:

- This well is to be completed in the Gallup and Dakota formations.
- No abnormal temperature or pressure, or other hazards are anticipated.
- LCM will be added to the mud system as required to maintain circulation.
- Estimated formation pressures:
 - Fruitland Coal 300 psi
 - Pictured Cliffs 300 psi
 - Mesa Verde 600 psi
 - Gallup 650 psi
 - Dakota 800 psi

Completion Information:

The completion procedure will be prepared after open hole logs are analyzed. The well will probably be completed by hydraulic frac in two to three stages.

Prepared by: Robert R. Griffie
Operations Engineer
Date: 06/07/01

Bishop Federal 25-1 Drilling and Completion AFE		page 1		
Description: 8768' md (8263' tvd) directionally drilled Gallup/Dakota test. Assumes standard drilling rig is utilized.				
AFE assumes completion in both the Gallup and Dakota formations with a two stage frac.				
Prepared by: R. Griffie				
Dry Hole Cost				
Cost Item Code	Description	Intangible	Tangible	Total
Preparation				
101 Permitting	permitting, survey, and archaeology	\$10,000.00		\$10,000.00
102 Dirtwork	blading, location preparation, anchors	\$5,500.00		\$5,500.00
103 Reclamation	dirtwork, water disposal	\$1,500.00		\$1,500.00
Drilling Rig Costs				
110 Rig Mobilization		\$25,000.00		\$25,000.00
111 Daywork Drilling Cost	14 days @ \$7500 per day	\$105,000.00		\$105,000.00
112 Footage Drilling Cost				
113 Turnkey Drilling Cost				
Drilling Equipment				
120 Drilling Bits		\$25,000.00		\$25,000.00
121 Drilling Tools	reamers, stabilizers, rental drill pipe, etc.			
122 Rental Equipment		\$2,240.00		\$2,240.00
Services				
133 Trucking	hauling pipe & materials, hot shot services	\$10,000.00		\$10,000.00
134 Water	water cost and hauling charges	\$25,000.00		\$25,000.00
135 Fuel	drilling contractor to provide			
136 Mud	mud, chemicals, soap, etc.	\$6,500.00		\$6,500.00
137 Air Drilling Services				
138 Directional Services		\$80,000.00		\$80,000.00
139 Fishing Services				
140 Safety Services	H2S monitoring, etc.			
141 Wireline Services				
142 Contract Labor	roustabout services, casing crews, welders, etc.	\$10,000.00		\$10,000.00
143 Inspection Services				
144 Down-hole Tools				
148 Other Services				
Cementing				
150 Primary Cementing	surface casing	\$3,500.00		\$3,500.00
151 P&A Cementing		\$5,100.00		\$5,100.00
152 Remedial Cementing				
Design and Supervision				
160 Engineering/Geology Design				
161 Field Supervision		\$9,600.00		\$9,600.00
162 Operator Overhead				
163 Outside Operator Overhead				
Formation Evaluation				
170 Open Hole Logging		\$30,000.00		\$30,000.00
171 Drill Stem Testing				
172 Coring	coring, and core analysis			
173 Mud Logging				
174 Field Geologist				
175 Flow Testing				
176 Laboratory Services				
Tangible Items				
180 Conductor Casing				
181 Surface Casing	600', 9 5/8", 32 ppf, J55 @ \$8.71/ft		\$7,680.00	\$7,680.00
182 Intermediate Casing				
183 Intermediate Casing				
184 Float Equipment	shoe, DV collar, centralizers, etc.		\$1,150.00	\$1,150.00
185 Casing Tools	liner hanger, etc.			
186 Pipe Inspection	casing and tubing strings			
187 Well Head Equipment			\$1,500.00	\$1,500.00
Miscellaneous				
190				
Total Dry Hole Cost		\$353,940.00	\$10,330.00	\$364,270.00

page 2

Cost to run Production Casing and complete with two stage frac in both the Gallup and Dakota

prepared by: R. Griffie

Cost Item Code	Description	Intangible	Tangible	Total
Preparation				
201 Permitting				
202 Dirtwork	blading, location preparation, anchors	\$1,500.00		\$1,500.00
203 Reclamation	dirtwork, water disposal			
Completion Rig Costs				
210 Rig Mobilization		\$2,800.00		\$2,800.00
211 Hourly or Daily Cost		\$25,680.00		\$25,680.00
212 Expendables	swab cups, line, etc.	\$1,800.00		\$1,800.00
213				
Workover Equipment				
220 Bits and Mills		\$650.00		\$650.00
221 Workover tools				
222 Rental Equipment		\$2,000.00		\$2,000.00
Services				
233 Trucking	hauling pipe & materials, hot shot services	\$14,500.00		\$14,500.00
234 Water	water cost and hauling charges	\$20,000.00		\$20,000.00
234 Fuel	for air drilling equipment			
236 Mud	mud, chemicals, soap, etc.			
237 Air Drilling Services				
238 Directional Services				
239 Fishing Services	fishing tools, etc. Mills			
240 Safety Services	H2S monitoring, etc.			\$0.00
241 Wireline Services	CBL, correlation, squeeze perforating, etc.	\$6,500.00		\$6,500.00
242 Contract Labor	roustabout services, casing crews, welders, etc.	\$2,500.00		\$2,500.00
243 Inspection Services				
244 Down-hole Tools	test packers, bridgeplugs, cement retainers	\$15,000.00		\$15,000.00
245 Stimulation Services	acidizing, frac, etc.	\$100,000.00		\$100,000.00
246 Misc Pumping Services	CO2, Nitrogen, etc.			
247 Hydrotesting Services				
248 Other Services				
Cementing				
250 Primary Cementing	cementing of new production string	\$45,000.00		\$45,000.00
251 P&A Cementing				
252 Remedial Cementing				
Design and Supervision				
260 Engineering/Geology Design				
261 Field Supervision		\$6,400.00		\$6,400.00
262 Operator Overhead				
263 Outside Operated Overhead				
Formation Evaluation				
270 Cased Hole Logging	for formation evaluation			
271 Drill Stem Testing				
272 Coring	coring, and core analysis			
273 Mud Logging				
274 Field Geologist				
275 Flow Testing	flow test, pressure build up, etc.			
276 Laboratory Services	gas, oil, & water analysis			
Tangible Items				
280 Production Casing	8713' of 5 1/2" 15.50 and 17 ppf casing		\$58,782.45	\$58,782.45
281 Tubing	8600' of 2 3/8" EUE		\$18,060.00	\$18,060.00
282 Tubing				
283 Tubing String equipment			\$1,100.00	\$1,100.00
284 Float Equipment	shoe, DV collar, centralizers, etc.		\$15,000.00	\$15,000.00
285 Casing Tools	liner hanger, etc.			
286 Pipe Inspection	casing and tubing strings			
287 Well Head Equipment			\$5,400.00	\$5,400.00
288 Permanent Packers	permanent production packers, bridgeplugs, etc.			
289 Miscellaneous Pipe and Fittings			\$1,500.00	\$1,500.00
Miscellaneous				
290				
Completion Cost Total		\$244,330.00	\$99,842.45	\$344,172.45

Production Equipment			page 3		
Costs to set Production Tanks, Separator, and prep location. Does not include pipeline or pumping unit costs			prepared by: R. Griffie		
Cost Code	Item Description	Intangible	Tangible	Total	
Tangible Items					
501	Production Tanks		\$ 17,500.00	\$17,500.00	
502	Flow Lines, Valves, and Fittings		\$ 5,000.00	\$5,000.00	
503	Pumping Equipment - Surface			pumping unit	
504	Pumping Equipment - Downhole			rods, pump, etc	
505	Production Units		\$ 35,000.00	\$35,000.00	
	heater treater / separator				
506	Metering Equipment				
507	Wellsite Compression				
508	Buildings				
509	Miscellaneous		\$ 5,000.00	\$5,000.00	
Installation and Construction					
520	Contract Labor	\$ 20,000.00		\$20,000.00	
Production Equipment Total		\$ 20,000.00	\$ 62,500.00	\$ 82,500.00	

AFE Summary					
Cost Code	Item Description	Intangible	Tangible	Total	
	Dry Hole Cost	\$353,940.00	\$10,330.00	\$364,270.00	
	less P&A Cementing Cost	-\$5,100.00	\$0.00	-\$5,100.00	
	Completion Cost	\$244,330.00	\$99,842.45	\$344,172.45	
	Production Equipment Cost	\$ 20,000.00	\$ 62,500.00	\$ 82,500.00	
	Total Estimated Well Cost	\$613,170.00	\$172,672.45	\$785,842.45	
	excluding pipeline and pumping unit				

D.J. SIMMONS, INC.

Drilling Plan

Well Name: Bishop Federal 25-2

Surface Location: 2175 FSL x 1813 FEL, Section 12, T29N, R9W
Rio Arriba County, NM

Bottom Hole Location: Same

Formation: Gallup/Dakota

Elevation: 7187' GL

Geology:

Formation	Top Measured Depth	Probable Content
San Jose	Surface	
Ojo Alamo	3235	salt water
Fruitland	3335	gas/water
Pictured Cliffs	3510	gas
Chacra	3945	gas
Mesa Verde	5197	gas
Menefee	5294	gas
Point Lookout	5710	gas
Mancos	5948	gas/oil
Gallup	6677	gas/oil
Graneros	7802	gas/oil
Dakota	7909	gas/oil
Burro Canyon	8079	gas/water

Logging Program: Spectral Density, Epithermal Neutron, Induction Log from TD to surface casing shoe.

Drilling Fluid Program:

Interval	Fluid Type	Weight	Viscosity	Fluid Loss
0' - 600'	fresh water spud mud	8.4 - 9.0 ppg	30 - 50 sec	no control
600' - 5197'	2% KCL / PHPA polymer	8.4 - 9.0 ppg	30 - 50 sec	no control
5197' - TD	2% KCL / PHPA polymer	8.4 - 9.0 ppg	30 - 50 sec	10

Casing Program:

Interval	Hole Diameter	Csg Size	Wt.	Grade	Thread
0' – 600'	12 1/4"	9 5/8"	32 ppf	J-55	LTC
0' – 6200'	7 7/8"	5 1/2"	15.50 ppf	J-55	LTC
6200' – 7500'	7 7/8"	5 1/2"	17 ppf	J-55	LTC
7500' – 8150'	7 7/8"	5 1/2"	17 ppf	N-80	LTC

Tubing Program: 0 – 8100', 2 3/8", 4.7 ppf, J55, EUE

BOPE and Wellhead Specifications and Testing:

From surface casing shoe to TD: 9 5/8" 3000 psi threaded casing head with two 2" outlets. 11", 3000 psi double gate BOP and 3000 psi choke manifold (see figures 1 and 2). Pressure test BOPE to 3000 psi and 9 5/8" surface casing to 600 psi prior to drilling surface casing shoe.

For completion operations: 7" x 2 3/8", 3000 psi tree assembly. 7 1/16", 3000 psi double gate BOP system (see figure 3).

General Operation:

- Actuate pipe rams once each day during drilling operations. Actuate blind rams once each trip.
- An upper Kelly cock valve, with handle, will be available on the rig floor to fit each drilling string.
- BOP pit level drill will be conducted weekly for each drilling crew.
- All BOP tests and drills will be recorded in the daily drilling report.
- Blind and pipe rams will be equipped with extension hand wheels.

Cementing Program:

9 5/8" Surface Casing String: Run casing with saw tooth guide shoe on bottom, insert float valve one joint from bottom, and install bowspring centralizers as per Onshore Order #2. Cement with 350 sks class 'G' with 1/4 #/sk flocele and 3% CaCl₂ (413 cf slurry, 100% excess to circulate to surface).

5 1/2" Production Casing String: Run casing with float shoe on bottom, float collar one joint from bottom and centralizers every other joint from TD to 3700'. Install stage collars at 5800' and 3800'. Cement in three stages. Stage 1 (8225' – 5800'); 350 sks class 'G' 50/50 poz with, 2% gel, 1/4 #/sk flocele, 5 #/sk gilsonite. Stage 2 (5800' – 3800'); 400 sks class 'G' 50/50 poz with 2% gel, 1/4 #/sk flocele, 5 #/sk gilsonite. Stage 3 (4100' – 0'); 670 sks class 'G' 50/50 poz with 2% CaCl₂, 6% gel, 1/4 #/sk flocele, 5 #/sk gilsonite. Precise slurry volumes to be calculated from open hole log caliper plug 25% excess. Top of cement to be at surface.

Special Drilling Operations:

No special operations are anticipated

Additional Information:

- This well is to be completed in the Gallup and Dakota formations.
- No abnormal temperature or pressure, or other hazards are anticipated.
- LCM will be added to the mud system as required to maintain circulation.
- Estimated formation pressures:
 - Fruitland Coal 300 psi
 - Pictured Cliffs 300 psi
 - Mesa Verde 600 psi
 - Gallup 650 psi
 - Dakota 800 psi

Completion Information:

The completion procedure will be prepared after open hole logs are analyzed. The well will probably be completed by hydraulic frac in two to three stages.

Prepared by: Robert R. Griffie
Operations Engineer
Date: 06/07/01

Bishop Federal 25-2 Drilling and Completion AFE					page 1
Description: 8150' Gallup/Dakota test. Assumes standard drilling rig is utilized.					
AFE assumes completion in both the Gallup and Dakota formations with a two stage frac.					
					Prepared by: R. Griffiee
Dry Hole Cost					
Cost Item Code	Description	Intangible	Tangible	Total	
Preparation					
101 Permitting	permitting, survey, and archaeology	\$10,000.00		\$10,000.00	
102 Dirtwork	blading, location preparation, anchors	\$5,500.00		\$5,500.00	
103 Reclamation	dirtwork, water disposal	\$1,500.00		\$1,500.00	
Drilling Rig Costs					
110 Rig Mobilization		\$25,000.00		\$25,000.00	
111 Daywork Drilling Cost	10 days @ \$7500 per day	\$75,000.00		\$75,000.00	
112 Footage Drilling Cost					
113 Turnkey Drilling Cost					
Drilling Equipment					
120 Drilling Bits		\$15,000.00		\$15,000.00	
121 Drilling Tools	reamers, stabilizers, rental drill pipe, etc.				
122 Rental Equipment		\$1,600.00		\$1,600.00	
Services					
133 Trucking	hauling pipe & materials, hot shot services	\$10,000.00		\$10,000.00	
134 Water	water cost and hauling charges	\$25,000.00		\$25,000.00	
135 Fuel	drilling contractor to provide				
136 Mud	mud, chemicals, soap, etc.	\$5,500.00		\$5,500.00	
137 Air Drilling Services					
138 Directional Services					
139 Fishing Services					
140 Safety Services	H2S monitoring, etc.				
141 Wireline Services					
142 Contract Labor	roustabout services, casing crews, welders, etc.	\$10,000.00		\$10,000.00	
143 Inspection Services					
144 Down-hole Tools					
146 Other Services					
Cementing					
150 Primary Cementing	surface casing	\$3,500.00		\$3,500.00	
151 P&A Cementing		\$5,100.00		\$5,100.00	
152 Remedial Cementing					
Design and Supervision					
160 Engineering/Geology Design					
161 Field Supervision		\$8,000.00		\$8,000.00	
162 Operator Overhead					
163 Outside Operated Overhead					
Formation Evaluation					
170 Open Hole Logging		\$30,000.00		\$30,000.00	
171 Drill Stem Testing					
172 Coring	coring, and core analysis				
173 Mud Logging					
174 Field Geologist					
175 Flow Testing					
176 Laboratory Services					
Tangible Items					
180 Conductor Casing					
181 Surface Casing	600', 9 5/8", 32 ppf, J55 @ \$8.71/ft		\$7,680.00	\$7,680.00	
182 Intermediate Casing					
183 Intermediate Casing					
184 Float Equipment	shoe, DV collar, centralizers, etc.		\$1,150.00	\$1,150.00	
185 Casing Tools	liner hanger, etc.				
186 Pipe Inspection	casing and tubing strings				
187 Well Head Equipment			\$1,500.00	\$1,500.00	
Miscellaneous					
190					
Total Dry Hole Cost		\$230,700.00	\$10,330.00	\$241,030.00	

page 2

Cost to run Production Casing and complete with two stage frac in both the Gallup and Dakota

prepared by: R. Griffie

Cost Item Code	Description	Intangible	Tangible	Total
Preparation				
201 Permitting				
202 Dirtwork	blading, location preparation, anchors	\$1,500.00		\$1,500.00
203 Reclamation	dirtwork, water disposal			
Completion Rig Costs				
210 Rig Mobilization		\$2,800.00		\$2,800.00
211 Hourly or Daily Cost		\$25,680.00		\$25,680.00
212 Expendables	swab cups, line, etc.	\$1,800.00		\$1,800.00
213				
Workover Equipment				
220 Bits and Mills		\$650.00		\$650.00
221 Workover tools				
222 Rental Equipment		\$2,000.00		\$2,000.00
Services				
233 Trucking	hauling pipe & materials, hot shot services	\$14,500.00		\$14,500.00
234 Water	water cost and hauling charges	\$20,000.00		\$20,000.00
234 Fuel	for air drilling equipment			
236 Mud	mud, chemicals, soap, etc.			
237 Air Drilling Services				
238 Directional Services				
239 Fishing Services	fishing tools, etc. Mills			
240 Safety Services	H2S monitoring, etc.			\$0.00
241 Wireline Services	CBL, correlation, squeeze perforating, etc.	\$6,500.00		\$6,500.00
242 Contract Labor	roustabout services, casing crews, welders, etc.	\$2,500.00		\$2,500.00
243 Inspection Services				
244 Down-hole Tools	test packers, bridgeplugs, cement retainers	\$15,000.00		\$15,000.00
245 Stimulation Services	acidizing, frac, etc.	\$100,000.00		\$100,000.00
246 Misc Pumping Services	CO2, Nitrogen, etc.			
247 Hydrotesting Services				
248 Other Services				
Cementing				
250 Primary Cementing	cementing of new production string	\$45,000.00		\$45,000.00
251 P&A Cementing				
252 Remedial Cementing				
Design and Supervision				
260 Engineering/Geology Design				
261 Field Supervision		\$6,400.00		\$6,400.00
262 Operator Overhead				
263 Outside Operator Overhead				
Formation Evaluation				
270 Cased Hole Logging	for formation evaluation			
271 Drill Stem Testing				
272 Coring	coring, and core analysis			
273 Mud Logging				
274 Field Geologist				
275 Flow Testing	flow test, pressure build up, etc.			
276 Laboratory Services	gas, oil, & water analysis			
Tangible Items				
280 Production Casing	8150' of 5 1/2" 15.50 and 17 pp/casing		\$55,488.50	\$55,488.50
281 Tubing	8050' of 2 3/8" EUE		\$16,905.00	\$16,905.00
282 Tubing				
283 Tubing String equipment			\$1,100.00	\$1,100.00
284 Float Equipment	shoe, DV collar, centralizers, etc.		\$15,000.00	\$15,000.00
285 Casing Tools	liner hanger, etc.			
286 Pipe Inspection	casing and tubing strings			
287 Well Head Equipment			\$5,400.00	\$5,400.00
288 Permanent Packers	permanent production packers, bridgeplugs, etc.			
289 Miscellaneous Pipe and Fittings			\$1,500.00	\$1,500.00
Miscellaneous				
290				
Completion Cost Total		\$244,330.00	\$95,393.50	\$339,723.50

Production Equipment			page 3		
Costs to set Production Tanks, Separator, and prep location. Does not include pipeline or pumping unit costs			prepared by: R. Griffiee		
Cost Code	Item Description	Intangible	Tangible	Total	
Tangible Items					
501	Production Tanks		\$ 17,500.00	\$17,500.00	
502	Flow Lines, Valves, and Fittings		\$ 5,000.00	\$5,000.00	
503	Pumping Equipment - Surface	pumping unit			
504	Pumping Equipment - Downhole	rods, pump, etc			
505	Production Units		\$ 35,000.00	\$35,000.00	
	heater treater / separator				
506	Metering Equipment				
507	Wellsite Compression				
508	Buildings				
509	Miscellaneous		\$ 5,000.00	\$5,000.00	
Installation and Construction					
520	Contract Labor	\$ 20,000.00		\$20,000.00	
Production Equipment Total		\$ 20,000.00	\$ 62,500.00	\$ 82,500.00	

AFE Summary					
Cost Code	Item Description	Intangible	Tangible	Total	
	Dry Hole Cost	\$230,700.00	\$10,330.00	\$241,030.00	
	less P&A Cementing Cost	-\$5,100.00	\$0.00	-\$5,100.00	
	Completion Cost	\$244,330.00	\$95,393.50	\$339,723.50	
	Production Equipment Cost	\$ 20,000.00	\$ 62,500.00	\$ 82,500.00	
	Total Estimated Well Cost	\$489,930.00	\$168,223.50	\$658,153.50	
	excluding pipeline and pumping unit				

T. H. McElvain Oil & Gas Limited Partnership
McElvain Oil & Gas Properties, Inc., sole General Partner
1050 17TH STREET, SUITE 1800

DENVER, COLORADO 80265

MONA L. BINION, CPL
LAND MANAGER
e-mail monab@mcelvainoilandgas.com

TELEPHONE 303-893-0933 EXT.306
FAX 303-893-0914
Cellular 303-809-2058

June 14, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

D. J. Simmons Company Limited Partnership
P. O. Box 1469
Farmington, NM 87499

Re: Naomi #2 Well Proposal
Township 25 North, Range 3 West
Section 25: NW/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 Mesaverde test well to be at a legal location in the NW/4 of Section 25, Township 25 North, Range 3 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$698,840 which is detailed on the enclosed McElvain Authority for Expenditure.

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 Mesaverde 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 indicate your election regarding participation on the enclosed Election Page, executing both copies in the space provided and returning one to the undersigned. If your election is to participate, also please execute both copies of the enclosed Authorization for Expenditure and Operating Agreement and returning one executed copy of each to the undersigned along with a summary of your well reporting requirements.

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.

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.

ELECTION PAGE

Naomi #2 Well

June 13, 2001

YES, I/We do hereby elect to participate in the drilling of the Naomi #2 Well as a Mesaverde test to be located in the NW/4 of Section 25, Township 25 North, Range 3 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 Naomi #2 Well as a Mesaverde test to be located in NW/4 of Section 25, Township 25 North, Range 3 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 17th Street, Suite 1800

Denver, CO 80265

D.J. SIMMONS, INC.

August 6th, 2001

CERTIFIED MAIL-RETURN RECEIPT

Forcenergy Onshore, Inc.
C/O Forest Oil Corporation
1600 Broadway, Suite 2200
Denver, Colorado 80202

T. H. McElvain Oil & Gas Limited Partnership
1050 17th Street, Suite 1800
Denver, Colorado 80265

Dugan Production Corporation
709 East Murray Drive
Farmington, New Mexico 87499

RE: Two Well Proposal
Bishop Federal #25-1 Well, NE/4 of Section 25
Bishop Federal #25-2 Well, SE/4 of Section 25
Township 25 North – Range 3 West, NMPM
Section 25: E/2 Unit
Rio Arriba County, New Mexico

Ladies/Gentlemen:

By certified letter dated June 7th, 2001, D. J. Simmons, Inc. invited you to participate in the drilling and completion of the above referenced wells. To clarify, your cost in the Bishop - Federal #25-1 well would be your proportionate share of drilling to the Mesaverde formation, and if productive, the cost of completing the Mesaverde formation. Your cost for the Mesaverde in the Bishop Federal #25-2 well would be the same as outlined above for the Bishop #25-1 well.

The interest of the participants in the wells and units would be as follows:

Bishop #25-1 and #25-2, E/2 Mesaverde Unit and/or #25-1, NE/4 Dakota Unit.

D. J. Simmons, Inc.	75.000%
Forcenergy Onshore, Inc.	12.500%
T. H. McElvain Oil & Gas Limited Partnership	9.375%
Dugan Production Corporation	<u>3.125%</u>
	100.000%

Bishop #25-2, SE/4 Dakota Unit.

D. J. Simmons, Inc.	50.000%
Forcenergy Onshore, Inc.	25.000%
T. H. McElvain Oil & Gas Limited Partnership	18.750%
Dugan Production Corporation	<u>6.250%</u>
	100.000%

However, Simmons would welcome your participation in drilling to the Dakota formation in the Bishop #25-1 and therefore earn your proportionate percentage of the leasehold in the unit, from the surface of the earth down to the base of the Dakota formation or total depth, which ever is the lesser depth, for a percentage of the leasehold, drilling and completion costs.

As of this writing, the NMOCD has not ruled on the May 17th, 2001 Compulsory Pooling hearing, concerning a S/2 Section 23 Unit.

D. J. Simmons, Inc.


A. B. Geren, Jr., President

D.J. SIMMONS, INC.

September 13th, 2001

FAX/CERTIFIED MAIL

Forcenergy Onshore, Inc.
C/O Forest Oil Corporation
1600 Broadway, Suite 2200
Denver, Colorado 80202

T. H. McElvain Oil & Gas Limited Partnership
1050 17th Street, Suite 1800
Denver, Colorado 80265

Dugan Production Corporation
709 East Murray Drive
Farmington, New Mexico 87499

RE: AFE for Bishop Federal #25-1 Well
Township 25 North – Range 3 West, NMPM
Section 25: NE/4
Rio Arriba County, New Mexico


Ladies/Gentlemen:

Enclosed herewith is an allocated Authorization for Expenditure for the drilling and completion of the Bishop #25-1, as to the Mesaverde formation only. This Authorization for Expenditure is furnished for informational purposes only. This letter is a follow up to my letter of August 6th, 2001.

Interest of parties:

D. J. Simmons, Inc.	75.000%
Forcenergy Onshore, Inc.	12.500%
T. H. McElvain Oil & Gas Limited Partnership	9.375%
Dugan Production Corporation	<u>3.125%</u>
	100.000%

D. J. Simmons, Inc.


A. B. Geren, Jr., President

Bishop Federal 25-1 Drilling and Completion AFE Allocation for Mesa Verde Completion page 1
 Description: 8768' md (8263' tvd) directionally drilled Gallup/Dakota test. Assumes standard drilling rig is utilized.
 AFE assumes completion in both the Gallup and Dakota formations with a two stage frac.

Prepared by: R. Giffey
 09/12/2001

Dry Hole Cost

Cost Item Code	Description	Intangible	Tangible	Total
Preparation				
101 Permitting	permitting, survey, and archaeology			
102 Dirtwork	blading, location preparation, anchors	\$5,000.00		\$5,000.00
103 Reclamation	dirtwork, water disposal	\$2,750.00		\$2,750.00
		\$750.00		\$750.00
Drilling Rig Costs				
110 Rig Mobilization				
111 Daywork Drilling Cost	8 days @ \$7500 per day to 100' below MV	\$12,500.00		\$12,500.00
112 Footage Drilling Cost		\$30,000.00		\$30,000.00
113 Turnkey Drilling Cost				
Drilling Equipment				
120 Drilling Bits				
121 Drilling Tools	reamers, stabilizers, rental drill pipe, etc.	\$12,500.00		\$12,500.00
122 Rental Equipment		\$1,120.00		\$1,120.00
Services				
133 Trucking	hauling pipe & materials, hot shot services			
134 Water	water cost and hauling charges	\$5,000.00		\$5,000.00
135 Fuel	drilling contractor to provide	\$7,500.00		\$7,500.00
136 Mud	mud, chemicals, soap, etc.	\$3,250.00		\$3,250.00
137 Air Drilling Services				
138 Directional Services	not required for MV			
139 Fishing Services				
140 Safety Services	H2S monitoring, etc.			\$0.00
141 Wireline Services				
142 Contract Labor	roustabout services, casing crews, welders, etc.	\$2,500.00		\$2,500.00
143 Inspection Services				
144 Down-hole Tools				
148 Other Services				
Cementing				
150 Primary Cementing	surface casing			
151 P&A Cementing		\$1,750.00		\$1,750.00
152 Remedial Cementing		\$2,550.00		\$2,550.00
Design and Supervision				
160 Engineering/Geology Design				
161 Field Supervision				
162 Operator Overhead		\$5,600.00		\$5,600.00
163 Outside Operator Overhead				
Formation Evaluation				
170 Open Hole Logging				
171 Drill Stem Testing		\$15,000.00		\$15,000.00
172 Coring	coring, and core analysis			
173 Mud Logging				
174 Field Geologist				
175 Flow Testing				
176 Laboratory Services				
Tangible Items				
180 Conductor Casing				
181 Surface Casing	600', 9 5/8", 32 ppf, J55 @ \$8.71/lb			
182 Intermediate Casing		\$3,840.00		\$3,840.00
183 Intermediate Casing				
184 Float Equipment	shoe, O.V collar, centralizers, etc.	\$575.00		\$575.00
185 Casing Tools	liner hanger, etc.			
186 Pipe Inspection	casing and tubing strings			
187 Well Head Equipment		\$750.00		\$750.00
Miscellaneous				
190				
Total Dry Hole Cost		\$107,770.00	\$5,165.00	\$112,935.00

page 2

Bishop Federal 25-1 Drilling and Completion AFE Allocation for Mesa Verde Completion

Cost to run Production Casing and completa with two stage frac in Mesa Verde prepared by: R. Griffie
09/12/2001

Completion Costs Cost Item Code	Description	Intangible	Tangible	Total
Preparation				
201 Permitting				
202 Dirtwork	blading, location preparation, anchors	\$1,500.00		\$1,500.00
203 Reclamation	dirtwork, water disposal			
Completion Rig Costs				
210 Rig Mobilization		\$2,800.00		\$2,800.00
211 Hourly or Daily Cost		\$48,150.00		\$48,150.00
212 Expendables	swab cups, line, etc.	\$1,800.00		\$1,800.00
213				
Workover Equipment				
220 Bits and Mills		\$650.00		\$650.00
221 Workover tools		\$3,750.00		\$3,750.00
222 Rental Equipment				
Services				
233 Trucking	hauling pipe & materials, hot shot services	\$10,000.00		\$10,000.00
234 Water	water cost and hauling charges	\$15,000.00		\$15,000.00
234 Fuel	for air drilling equipment			
236 Mud	mud, chemicals, soap, etc.			
237 Air Drilling Services				
238 Directional Services				
239 Fishing Services	fishing tools, etc. Mills			\$0.00
240 Safety Services	H2S monitoring, etc.	\$13,000.00		\$13,000.00
241 Wireline Services	CBL, correlation, squeeze perforating, etc.	\$3,000.00		\$3,000.00
242 Contract Labor	roustabout services, casing crews, welders, etc.			
243 Inspection Services		\$16,000.00		\$16,000.00
244 Down-hole Tools	test packers, bridgeplugs, cement retainers	\$110,000.00		\$110,000.00
245 Stimulation Services	acidizing, frac, etc.			
246 Misc Pumping Services	CO2, Nitrogen, etc.			
247 Hydrotesting Services				
248 Other Services				
Cementing				
250 Primary Cementing	cementing of new production string	\$22,500.00		\$22,500.00
251 P&A Cementing				
252 Remedial Cementing				
Design and Supervision				
260 Engineering/Geology Design		\$12,000.00		\$12,000.00
261 Field Supervision				
262 Operator Overhead				
263 Outside Operated Overhead				
Formation Evaluation				
270 Cased Hole Logging	for formation evaluation			
271 Drill Stem Testing				
272 Coring	coring, and core analysis			
273 Mud Logging				
274 Field Geologist				
275 Flow Testing	flow test, pressure build up, etc.			
276 Laboratory Services	gas, oil, & water analysis			
Tangible Items				
280 Production Casing	8715' of 5 1/2" 15.50 and 17 ppf casing		\$29,391.23	\$29,391.23
281 Tubing	8600' of 2 3/8" EUE		\$9,030.00	\$9,030.00
282 Tubing			\$550.00	\$550.00
283 Tubing String equipment			\$7,500.00	\$7,500.00
284 Float Equipment	shoe, DV collar, centralizers, etc.			
285 Casing Tools	liner hanger, etc.			
286 Pipe Inspection	casing and tubing strings		\$2,700.00	\$2,700.00
287 Well Head Equipment				
288 Permanent Packers	permanent production packers, bridgeplugs, etc.		\$750.00	\$750.00
289 Miscellaneous Pipe and Fittings				
Miscellaneous				
290				
Completion Cost Total		\$260,150.00	\$49,921.23	\$310,071.23

Bishop Federal 25-1		Drilling and Completion AFE	Allocation for MesaVerde Completion		page 3
Costs to set Production Tanks, Separator, and prep location. Does not include pipeline or pumping unit costs			prepared by: R. Griffiee 09/12/2001		
Production Equipment					
Cost Item Code	Description	Intangible	Tangible	Total	
Tangible Items					
501	Production Tanks		\$ 8,750.00	\$8,750.00	
502	Flow Lines, Valves, and Fittings		\$ 2,500.00	\$2,500.00	
503	Pumping Equipment - Surface	pumping unit			
504	Pumping Equipment - Downhole	rods, pump, etc			
505	Production Units	heater treater / separator	\$ 17,500.00	\$17,500.00	
506	Metering Equipment				
507	Wellsite Compression				
508	Buildings				
509	Miscellaneous		\$ 2,500.00	\$2,500.00	
Installation and Construction					
520	Contract Labor	\$ 10,000.00		\$10,000.00	
Production Equipment Total		\$ 10,000.00	\$ 31,250.00	\$ 41,250.00	

AFE Summary					
Cost Item Code	Description	Intangible	Tangible	Total	
	Dry Hole Cost	\$107,770.00	\$5,165.00	\$112,935.00	
	less P&A Cementing Cost	-\$2,550.00	\$0.00	-\$2,550.00	
	Completion Cost	\$260,150.00	\$49,921.23	\$310,071.23	
	Production Equipment Cost	\$ 10,000.00	\$ 31,250.00	\$ 41,250.00	
	Total Estimated Well Cost	\$375,370.00	\$86,336.23	\$461,706.23	
	excluding pipeline and pumping unit				

D.J. SIMMONS, INC.

September 13, 2001

FAX/CERTIFIED MAIL

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

ATTN: Ms. Mona L. Binion, Land Manager

RE: Ojito South Prospect
Township 25 North – Range 3 West, MNPM
Section 25
Rio Arriba County, New Mexico

Dear Ms. Binion,


D. J. Simmons, Inc., in an effort to settle disputes concerning well spacing and gas proration units covering lands in Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico, proposes the following settlement for your perusal and comments.

Simmons would sell to McElvain the N/2SE/4 of Section 25 for \$200.00 per net mineral acre and deliver an 80.00% NRI assignment. Simmons would assign only the operating rights from a point 750 feet below the Huerfanito Bentonite Marker to the base of the Mesaverde Formation as per special rules and regulations for the Blanco-Mesaverde Gas Pool. Simmons and McElvain would agree to form two 160 acre non-standard proration units for the Mesaverde formation only, in the N/2 of Section 25. In addition, Simmons would be willing to share logs, from the the Bishop #25-1 well.

It would be to the benefit of both companies to try and settle our differences prior to the OCD Hearing scheduled for September 20th, 2001, and therefore Simmons would certainly be open to any proposals McElvain might suggest.

Simmons will hold this offer open until 5:00 P.M. MST, September 19th, 2001. Should we not hear from you by that time, we will assume this offer to be null and void and that McElvain has no interest in a settlement.

D. J. Simmons, Inc.


A. B. Geren, Jr., President

C: Mr. J. Scott Hall, Esq.
Mr. Steve Shefte

T. H. MCELVAIN OIL & GAS LIMITED PARTNERSHIP

MCELVAIN OIL & GAS PROPERTIES, INC., SOLE GENERAL PARTNER

**1050 17TH STREET, SUITE 1800
DENVER, COLORADO 80265-1801**

**MONA L. BINION
MANAGER, LAND**

**TELEPHONE 303-893-0933 EXT.306
FAX 303-893-0914
E-MAIL: MONAB@MCELVAIN.COM**

October 3, 2001

COPY

D. J. Simmons Company Limited Partnership
Attn.: Mr. Geren
P.O. Box 1469
Farmington, NM 87499

Re: Section 25, Township 25 North, Range 3 West
Rio Arriba County, New Mexico

Dear Mr. Geren:

I am in receipt of your September 13th letter and agree it would be beneficial for both companies to reach an agreement concerning development of the Mesaverde formation under the N/2 of Section 25. However, the S/2 of Section 25 was the subject of extensive - but unsuccessful - settlement efforts prior to the Division's hearing on McElvain's pooling application. Development of the S/2 of Section 25 is now controlled by Administrative Order NSL-4538 and the order entered shortly by the Division in Case No. 12635.

Your proposal for non-standard spacing units in the N/2 of Section 25 would require Division approval and represents a departure from the normal manner under which the Mesaverde formation has been developed in this area. Nonetheless, McElvain is willing to discuss this option further at your convenience.

Sincerely,



Mona L. Binion

HOLLAND & HART^{LLP}
and
CAMPBELL & CARR

ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE • CASPER
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501-6525

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

Michael H. Feldewert

mfeldewert@hollandhart.com

October 11, 2001

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

D. J. Simmons Company Limited Partnership
P. O. Box 1469
Farmington, NM 87499

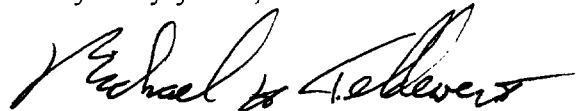
**Re: Application of McElvain Oil & Gas Properties, Inc. for
Compulsory Pooling, Rio Arriba County, New Mexico**

Dear Sir or Madame:

This letter is to advise you that McElvain Oil & Gas Properties, Inc. has filed the enclosed application with the New Mexico Oil Conservation Division. This application has been set for hearing before a Division Examiner on November 1, 2001. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Prehearing Statement three days in advance of a scheduled hearing. This statement must include: the name of the party and its attorney; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,



Michael H. Feldewert

MHF/ras

Enc.

Cc w/ enc: J. Scott Hall, Esq.

**STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION**

OCT -9 PM 3:18

OIL CONSERVATION DIV.

**IN THE MATTER OF THE APPLICATION
OF McELVAIN OIL & GAS PROPERTIES, INC.
FOR COMPULSORY POOLING,
RIO ARriba COUNTY, NEW MEXICO.**

CASE NO. _____

APPLICATION

McELVAIN OIL AND GAS PROPERTIES, INC. ("McElvain"), through its undersigned attorneys, hereby makes application pursuant to the provisions of N.M.Stat. Ann. '70-2-17, (1978), for an order pooling all mineral interests in all formations from the base of the Pictured Cliffs formation to the base of the Mesaverde formation in the N/2 of Section 25, Township 26 North, Range 3 West, N.M.P.M., Rio Arriba County, New Mexico for all formations and/or pools developed on 320-acre spacing which includes but is not limited to the Blanco Mesaverde Gas Pool. In support of this application McElvain states:

1. McElvain is a working interest owner in the N/2 of said Section 25 and has a right to drill thereon.
2. McElvain proposes to dedicate the above-referenced spacing or proration unit to its Naomi Well No. 2 to be drilled at a standard location in the NW/4 of said Section 25, to a depth sufficient to test any and all formations to the base of the Mesaverde formation, Blanco Mesaverde Gas Pool.

3. Applicant has sought and been unable to obtain either voluntary agreement for pooling or farmout from certain interest owners in the subject spacing unit identified on Exhibit A to this application.

4. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

5. In order to permit the Applicant to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and McElvain Oil & Gas Properties, Inc. should be designated the operator of the well to be drilled.

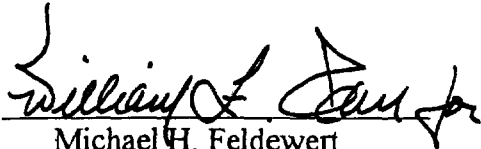
WHEREFORE, McElvain Oil & Gas Properties, Inc. requests that this application be set for hearing before an Examiner of the Oil Conservation Division on November 1, 2001, and, after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing and proration unit,
- B. designating McElvain operator of the unit and the well to be drilled thereon,
- C. authorizing McElvain to recover its costs of drilling, equipping and completing the well,
- D. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures, and
- E. imposing a penalty for the risk assumed by McElvain in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

HOLLAND & HART, LLP
AND
CAMPBELL & CARR

By:

A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written over a horizontal line.

Michael H. Feldewert

Post Office Box 2208

Santa Fe, New Mexico 87504

Telephone: (505) 988-4421

ATTORNEYS FOR McELVAIN OIL
& GAS PROPERTIES, INC.

EXHIBIT A

NOTICE LIST

**McELVAIN OIL & GAS PROPERTIES, INC.
FOR COMPULSORY POOLING
N/2 OF SECTION 25, TOWNSHIP 26 NORTH, RANGE 3 WEST, N.M.P.M.
RIO ARriba COUNTY, NEW MEXICO**

D. J. Simmons Company Limited Partnership
P. O. Box 1469
Farmington, NM 87499

CASE _____:

Application of McElvain Oil & Gas Properties, Inc. for compulsory pooling, Rio Arriba County, New Mexico. Applicant in the above-styled cause seeks an order pooling all mineral interests in all formations from the base of the Pictured Cliffs formation to the base of the Mesaverde formation in N/2 of Section 25, Township 25 North, Range 3 West, N.M.P.M. for all formations and or pools developed on 320-acre spacing, which includes but is not necessarily limited to the Mesaverde formation, Blanco-Mesaverde Gas Pool. Said unit is to be dedicated to applicant's proposed Naomi Well No. 2 to be drilled at a standard location in the NW/4 of said Section 25. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said area is located approximately 5 miles southwest of Lindrith, New Mexico.

D.J. SIMMONS, INC.

October 25, 2001

VIA FAX & OVERNIGHT MAIL

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

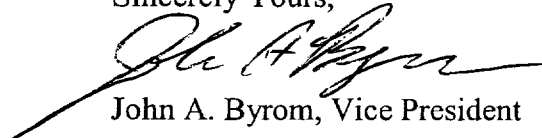
Attn: Mr. Steve Shefte

RE: Offer to Settle Case No. 12635 & 12705
Section 25 Spacing Units,
Township 25 North – Range 3 West, N.M.P.M.
Rio Arriba County, New Mexico

Dear Mr. Shefte,

D. J. Simmons Company Limited Partnership (Simmons) is willing to settle our differences concerning the referenced two cases before the New Mexico Oil Conversation Division as to 320 acre spacing units in Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County New Mexico providing McElvain Oil & Gas Properties, Inc. (McElvain) will agree to allow for two special 160-acre spacing units in the N/2 of Section 25 as to the interval from the Base of the Pictured Cliff formation to the Base of the Mesaverde formation. McElvain would continue to own and operate the NW/4 and Simmons would continue to own and operate the NE/4, both in Section 25. In addition, Simmons would elect to farmout their 100% leasehold interest in the N/2SE/4 of Section 25 for a 1¼% ORRI to payout, back-in for a 5% of 8/8s working interest in the 320 acre, S/2 spacing unit, said spacing unit previously approved by the Oil Conservation Division. This would be in place of our previous election not to participate as indicated on the election page for the Naomi #1 well, signed and dated October 5, 2001. Should this be agreeable to McElvain, please sign, date and return one copy of this letter to Simmons no later than October 31, 2001.

Sincerely Yours,



John A. Byrom, Vice President

ACCEPTED AND AGREED TO BY:

McElvain Oil & Gas Properties, Inc.

By: _____

Date: _____

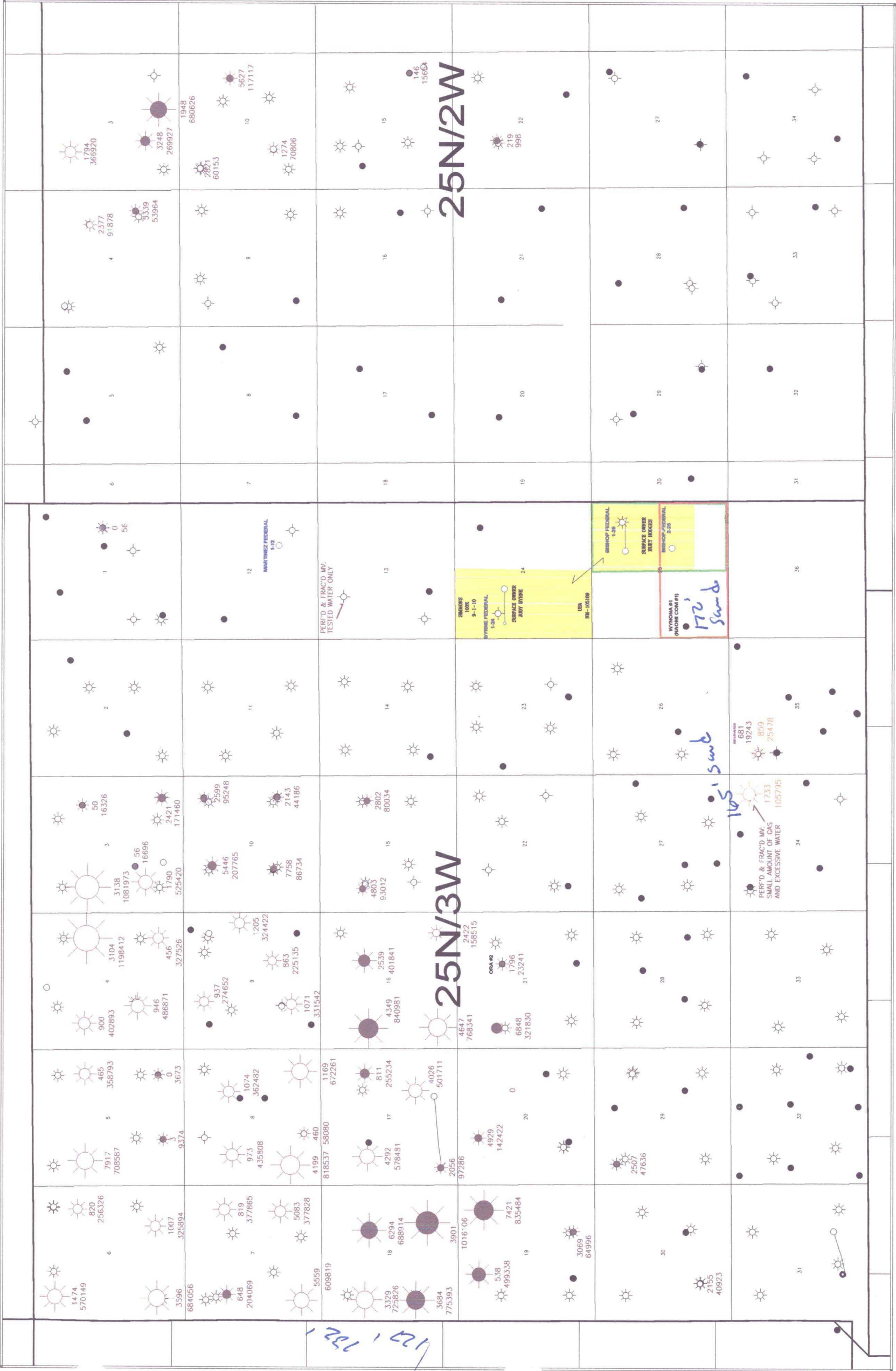
D.J. Simmons, Inc.

P.O. Box 1469
1009 Ridgeway Place, Suite 200

Farmington, New Mexico 87499
87401

(505) 326-3753

FAX (505) 327-4659



LEGEND

- D.J. SIMMONS LEASE ACREAGE
- CHACRA (LEWIS) WELL
- MESAVERDE WELL
- MCELVAIN PROPOSED GPU
- D.J. SIMMONS PROPOSED GPU
- CUM OIL
- CUM GAS
- D.J. SIMMONS WELL LOCATION

D.J. Simmons, Inc.

25N, 2W & 3W
CHACRA & MESAVERDE PRODUCTION MAP

Scale 1:4000

12/29/2001

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 11705
Order No. R-10987

APPLICATION OF OIL CONSERVATION
DIVISION FOR TO AMEND ORDER R-8170,
AS AMENDED, "GENERAL RULES FOR THE
PRORATED POOLS OF NEW MEXICO" AND
ORDER NO. R-333, AS AMENDED, " RULES OF
PROCEDURE FOR PRORATED GAS POOLS IN
NORTHWEST NEW MEXICO"

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on April 9, 1998, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 7th day of May, 1998, the Commission, a quorum being present, having considered the record and being fully advised,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) New Mexico Oil Conservation Division (the "Division") Order No. R-8170, as amended, sets forth the general rules for the prorated gas pools in New Mexico as well as special pool rules for the individual prorated gas pools. Order No. R-8170 has been amended several times throughout the years.

(3) Division Order No. R-333, as amended, sets forth the tests and test procedures for the prorated gas pools in Northwest New Mexico. Order No. R-333 has also been amended several times throughout the years.

- GPU's shall be allocated among such GPU's in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPU's in the pool.
- When calculating the allowable for a GPU containing an infill well, the deliverability of both wells shall be added in calculating the AD Factor and the allowable may be produced from both wells.
- Sixty percent (60%) of the pool allowable remaining to be allocated to non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPU's in the pool.

MINIMUM ALLOWABLES: A minimum allowable of 250 MCF per month per GPU will be assigned to prevent the premature abandonment of wells.

A GPU in the BASIN DAKOTA GAS POOL shall be classified as marginal unless reclassified by the Director pursuant to Rule 605.F.(2). Any operator in the BASIN DAKOTA GAS POOL may request a reclassification of a GPU in that pool.

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

SPECIAL RULES AND

REGULATIONS FOR THE

BLANCO-MESAVERDE GAS POOL

The VERTICAL LIMITS for the Blanco-Mesaverde Gas Pool shall be as follows:

- North and east of a line generally running from the northwest corner of Township 31 North, Range 13 West, San Juan County, New Mexico, to the southwest corner of Township 24 North, Range 1 East, NMPM, Rio Arriba County, New Mexico, (as fully described on Exhibit "A" of Order R-5459, August 1, 1977, as amended, and in Rule 25 of this order), the vertical limits shall be from the Huerfanito Bentonite marker to a point 500 feet below the top of the Point Lookout Sandstone.
- South and west of the line described in (A) above, the vertical limits shall be from a point 750 feet below said Huerfanito Bentonite marker to a point 500 feet below the top of the Point Lookout Sandstone.
- The Blanco-Mesaverde Gas Pool was created February 25, 1949 and gas proration became effective March 1, 1955.

WELL ACREAGE AND LOCATION REQUIREMENTS

The STANDARD GPU (GAS PRORATION UNIT) in the Blanco-Mesaverde Gas Pool shall be 320 acres.

WELL LOCATION:

1. THE INITIAL WELL drilled on a GPU shall be located not closer than 790 feet to any outer boundary of the quarter section on which the well is located and not closer than 130 feet to any quarter-quarter section line or subdivision inner boundary.
2. THE INFILL WELL drilled on a GPU shall be located in the quarter section of the GPU not containing a Mesaverde well, and shall be located with respect to the GPU boundaries as described in the preceding paragraph.

The plat (Form C-102) accompanying the Application for Permit to Drill (OCD Form C-101 or the federal form) for the subsequent well on a GPU shall have outlined thereon the boundaries of the GPU and shall show the location of all existing Mesaverde wells on the GPU plus the proposed new well.

In the event an infill well is drilled on any GPU, both wells shall be produced for so long as it is economically feasible to do so.

ALLOCATION AND GRANTING OF ALLOWABLES

NON-MARGINAL GPU ALLOWABLE: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPU's shall be allocated among the non-marginal GPU's entitled to an allowable in the following manner:

- A) Seventy-five percent (75%) of the pool allowable remaining to be allocated to the non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPU's in the pool.

When calculating the allowable for a GPU containing an infill well, the deliverability of both wells shall be added in calculating the AD Factor and the allowable may be produced from both wells.

- B) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPU's in the pool.

MINIMUM ALLOWABLES: A minimum allowable of 250 MCF per month per GPU will be assigned to prevent the premature abandonment of wells.

A GPU in the BLANCO MESAVERDE GAS POOL shall be classified as marginal unless reclassified by the Director pursuant to Rule 605.F.(2). Any operator in the BLANCO MESAVERDE GAS POOL may request a reclassification of a GPU in that pool.

MISCELLANEOUS SPECIAL POOL RULES

VERTICAL LIMIT BOUNDARY: Exhibit "A" of Order R-5459 which defines a dividing line across the Blanco-Mesaverde Pool reads as follows:

EXHIBIT "A"

This Exhibit defines the Northwest-Southeast trending line established by Order R-5459, as amended, that divides the Blanco-Mesaverde pool for defining the vertical limits of the pool. Said line traverses the South side or West side of the sections listed below:

TOWNSHIP 24 NORTH, RANGE 01 EAST, NMPM

Section 31: West

TOWNSHIP 24 NORTH, RANGE 01 WEST, NMPM

Section 03: West

Section 10: West and South

Section 14: West and South

Section 24: West

Section 25: West and South

TOWNSHIP 25 NORTH, RANGE 01 WEST, NMPM

Section 07: West

Section 18: West and South

Section 20: West and South

Section 28: West

Section 33: West and South

TOWNSHIP 25 NORTH, RANGE 02 WEST, NMPM

Section 01: West and South

TOWNSHIP 26 NORTH, RANGE 02 WEST, NMPM

Sections 07 and 08: South

Section 16: West and South

Section 22: West and South

Section 26: West

Section 35: West and South

TOWNSHIP 26 NORTH, RANGE 03 WEST

Sections 02 and 03: South

Section 04: West and South
Section 12: West and South

TOWNSHIP 27 NORTH, RANGE 03 WEST, NMPM
Section 31 and 32: South

TOWNSHIP 27 NORTH, RANGE 04 WEST, NMPM
Sections 31 through 36: South

TOWNSHIP 27 NORTH, RANGE 05 WEST, NMPM
Section 31: West and South
Sections 32 through 36: South

TOWNSHIP 27 NORTH, RANGE 6 WEST, NMPM
Section 06: West
Section 07: West and South
Sections 08 and 09: South
Section 14: South
Section 15: West and South
Section 24: West
Section 25: West and South

TOWNSHIP 28 NORTH, RANGE 06 WEST, NMPM
Sections 07, 18, 19, 30, and 31: West

TOWNSHIP 29 NORTH, RANGE 7 WEST, NMPM
Section 31: West and South
Sections 32 through 36: South

TOWNSHIP 29 NORTH, RANGE 08 WEST, NMPM
Section 17: South
Section 18: West and South
Section 21: West and South
Section 22: South
Section 25: South
Section 26: West and South

TOWNSHIP 29 NORTH, RANGE 09 WEST, NMPM
Section 03: South
Section 04: West and South
Section 11: West and South
Section 12: South

TOWNSHIP 30 NORTH, RANGE 09 WEST, NMPM
Section 31: West and South

Section 32: South

TOWNSHIP 30 NORTH, RANGE 10 WEST, NMPM

Section 18: South

Section 20: West and South

Section 21 and 22: South

Section 25: South

South 26: West and South

TOWNSHIP 30 NORTH, RANGE 11 WEST, NMPM

Section 06: West and South

Section 08: West and South

Sections 09, 10, 11: South

Section 13: West and South

TOWNSHIP 31 NORTH, RANGE 12 WEST, NMPM

Section 19: South

Sections 27 and 28: South

Section 29: West and South

Section 35: West and South

Section 36: South

TOWNSHIP 31 NORTH, RANGE 13 WEST, NMPM

Sections 07 and 08: South

Sections 14 and 15: South

Section 16: West and South

Section 24: West and South

TOWNSHIP 31 NORTH, RANGE 14 WEST, NMPM

Section 12: South

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

SOUTH BLANCO-PICTURED CLIFFS GAS POOL

THE VERTICAL LIMITS of the South Blanco-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

The South Blanco-Pictured Cliffs Gas Pool, Rio Arriba, San Juan, and Sandoval Counties, New Mexico, was created May 20, 1952 and gas proration became effective March 1, 1955.

WELL ACREAGE AND LOCATION REQUIREMENTS

STANDARD GPU (GAS PRORATION UNIT) in the South Blanco-Pictured Cliffs Gas Pool

shall be 160 acres.

ALLOCATION AND GRANTING OF ALLOWABLES

NON-MARGINAL GPU ALLOWABLE: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPU's shall be allocated among the non-marginal GPU's entitled to an allowable in the following manner:

A) Seventy-five percent (75%) of the pool allowable remaining to be allocated to the non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's AD Factor bears to the total AD Factor for all non-marginal GPU's in the pool.

B) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPU's in the pool.

MINIMUM ALLOWABLES: A minimum allowable of 250 MCF per month per GPU will be assigned to prevent premature abandonment of wells.

A GPU in the SOUTH BLANCO PICTURED CLIFFS GAS POOL shall be classified as marginal unless reclassified by the Director pursuant to Rule 605.F.(2). Any operator in the SOUTH BLANCO PICTURED CLIFFS GAS POOL may request a reclassification of a GPU in that pool.

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)

SPECIAL RULES AND REGULATIONS FOR THE TAPACITO-PICTURED CLIFFS GAS POOL

THE VERTICAL LIMITS of the Tapacito-Pictured Cliffs Gas Pool shall be the Pictured Cliffs formation.

The Tapacito-Pictured Cliffs Gas Pool, Rio Arriba County, New Mexico, was created April 18, 1956 and gas proration in this pool became effective August 1, 1958.

WELL ACREAGE AND LOCATION REQUIREMENTS

STANDARD GPU (GAS PRORATION UNIT) in the Tapacito-Pictured Cliffs Gas Pool shall be 160 acres.

ALLOCATION AND GRANTING OF ALLOWABLES

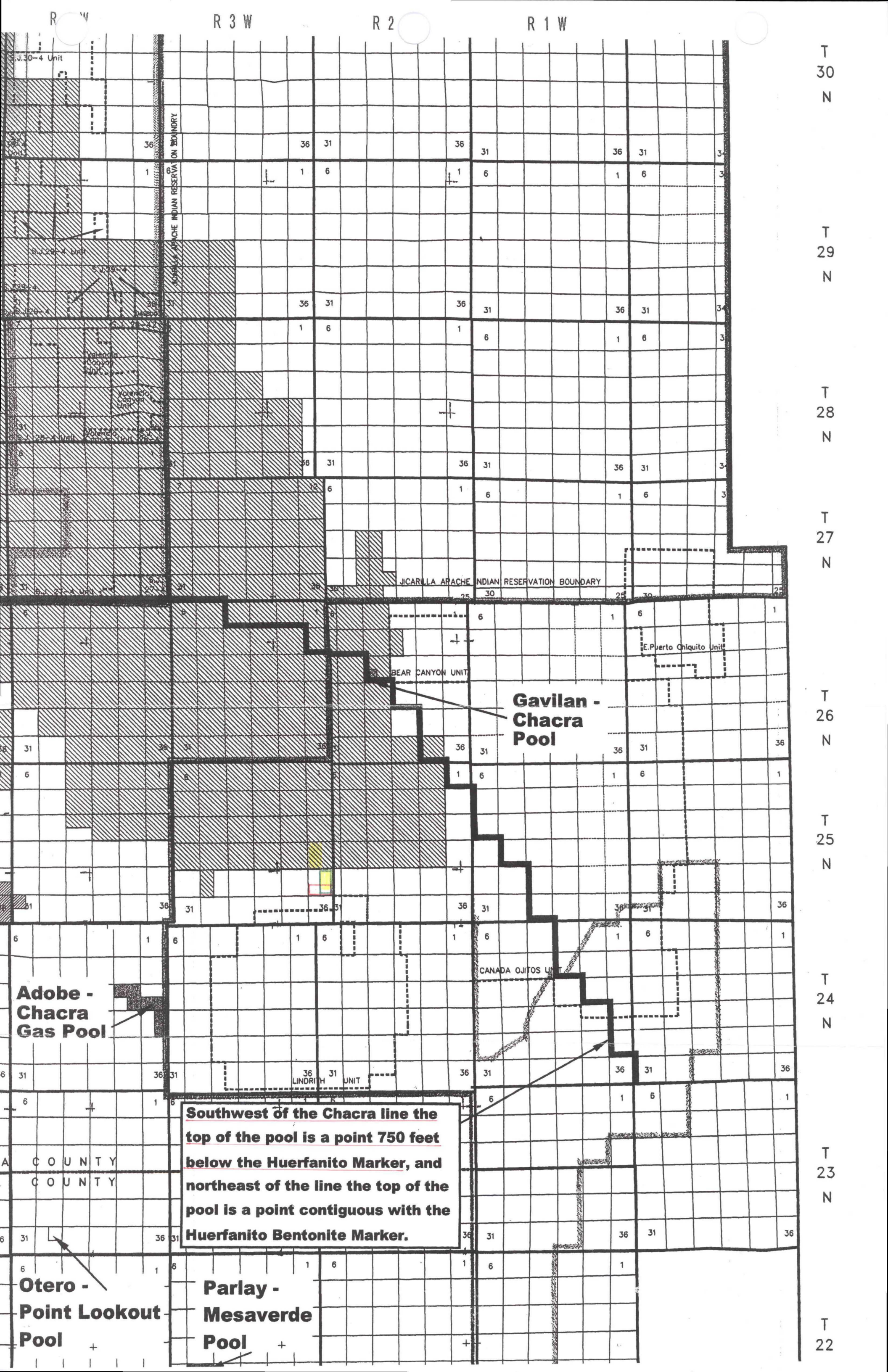
NON-MARGINAL GPU ALLOWABLE: The pool allowable remaining each month after deducting the total allowable assigned to marginal GPU's shall be allocated among the non-marginal GPU's entitled to an allowable in the following manner:

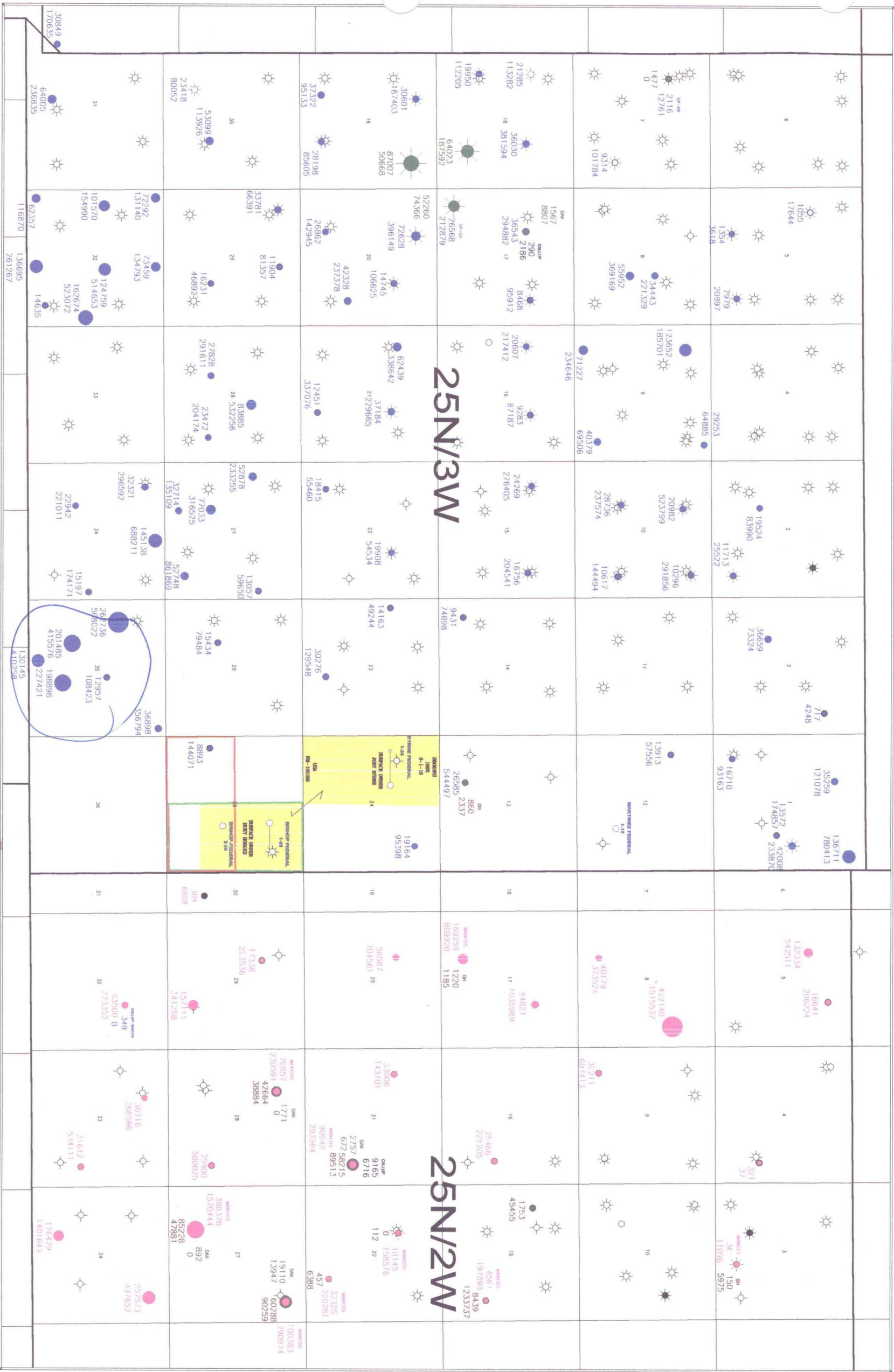
- A) Seventy-five percent (75%) of the pool allowable remaining to be allocated to the non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's "AD Factor" bears to the total "AD Factor" for all non-marginal GPU's in the pool.
- B) Twenty-five percent (25%) of the pool allowable remaining to be allocated to non-marginal GPU's shall be allocated among such GPU's in the proportion that each GPU's acreage factor bears to the total acreage factor for all non-marginal GPU's in the pool.

MINIMUM ALLOWABLES: A minimum allowable of 250 MCF per month per GPU will be assigned to prevent premature abandonment of wells.

A GPU in the TAPACITO PICTURED CLIFFS GAS POOL shall be classified as marginal unless reclassified by the Director pursuant to Rule 605.F.(2). Any operator in the GAS POOL may request a reclassification of a GPU in that pool.

(General Pool Rules also apply unless in conflict with these Special Pool Rules.)





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