

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

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

May 11, 2004

TO WORKING INTEREST OWNERS
(See Attached Addressee List)

Re: Badger 14 #1 Well Proposal
Township 25 North, Range 2 West
Section 14: NW/4NW/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/4NW/4 of Section 14, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$713,980 which is detailed on the enclosed McElvain Authority for Expenditure No. DONM04000049. The area designated as the “Spacing Unit” for this well is W/2 of Section 14, Township 25 North, Range 2 West, containing 320 acres, more or less. Pursuant to McElvain’s review of the records reflects the ownership of the designated Spacing Unit to be as follows:

T.H. McElvain Oil & Gas Limited Partnership	22.733203%
— Four Star Oil & Gas Company	12.500000%
— San Juan Gas Corporation	9.375000%
Williams Production Company	3.515625%
NM&O Operating Company	13.907422%
Arriba Company, Ltd.	.468750%
Mountain States Natural Gas Corp.	6.250000%
Ramona Sweet Revocable Trust	1.562500%
Hooper, Kimball & Williams	12.500000%
— Christopher Phillips	1.562500%
Petco, Ltd.	5.853274%
Ibex Partnership	5.853274%
Trade Exploration Corp.	3.125000%
Clark & Oatman	.793452%

A breakdown of tract ownerships and recap of Spacing Unit totals is enclosed for your review and information. An Operating Agreement prepared on AAPL Model form 610-1982 to govern operations

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13340 Exhibit No. 2
Submitted by:
McElvain Oil & Gas Properties, Inc.
Hearing Date: September 16, 2004

To Working Interest Owners
Badger 14 #1
May 11, 2004
Page 2

across the designated Spacing Unit **insofar as only those 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 proceed as follows:

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

Telefax copies of the executed documents will be accepted at:

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

provided that original copies are delivered promptly thereafter.

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. Thank you for your consideration to this proposal

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

Badger 14 #1 Well

May 11, 2004

YES, I/We do hereby elect to participate in the drilling of the Badger 14 #1 Well as a Mesaverde test to be located in the NW/4NW/4 of Section 14, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

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

NO, I/We do hereby elect NOT to participate in the drilling of the Badger 14 #1 Well as a Mesaverde test to be located in the NW/4NW/4 of Section 14, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

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

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

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

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

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

Telefax executed documents to

Mona Binion

(303) 893-0914

Mail original executed documents to

Mona Binion

McElvain Oil & Gas Properties, Inc.

1050 17th Street, Suite 1800

Denver, CO 80265

PARTICIPANT NAME: _____

BY: _____

Title: _____

Date: _____

WORKING INTEREST OWNERS

**Badger 14 #1 Well
May 11, 2004**

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

Arriba Company, Ltd.
P. O. Box 35304
Tulsa, OK 74153
Certified No. 7003-1010-0002-6390-9294

Mountain States Natural Gas Corp.
P. O. Box 12323
Las Vegas, NV 89112
Certified No. 7003-1010-0002-6390-9164

Four Star Oil & Gas Company
111 Bagby
Houston, TX 77002
Certified No. 7003-1010-0002-6390-9171

San Juan Gas Corporation
1318 Philtower Bldg
Tulsa, OK 74101-3102
Certified No. 7003-1010-0002-6390-9188

Williams Production Company
P. O. Box 3102
Tulsa, OK 74101-3102
Certified No. 7003-1010-0002-6390-9195

Ramona Sweet Revocable Trust
NM&O Operating Company
15 East 5th Street, Suite 3000
Tulsa, OK 74103
Certified No. 7003-1010-0002-6390-9201

Hooper, Kimball & Williams
5550 South Lewis Avenue, Suite 301
Tulsa, OK 74105
Certified No. 7003-1010-0002-6390-9218

~~Christopher Phillips
23 West 4th Street, Suite 900
Tulsa, OK 74103
Certified No. 7003-1010-0002-6390-9225~~

*1620 S. Newport
Tulsa, OK
74120*

Petco, Ltd.
Ibex Partnership
P. O. Box 111
Breckenridge, TX 76424-0911
Certified No. 7003-1010-0002-6390-9232

Trade Exploration Corp.
3400 City Center Tower II
301 Commerce Street
Fort Worth, TX 76102
Certified No. 7003-1010-0002-6390-9249

Clark & Oatman
P. O. Box 310
Bastrop, TX 78602
Certified No. 7003-1010-0002-6390-9256

Badger 14 #1 - BUDGET Initial Title = Opinion dated January 29, 1988
 NW/4 Section 14 (located in NM-039-007196)
 Township 25 North, Range 2 West Broker Title Paul Ireland-dated 2000
 W/2 of Section 14 Title Opinion dated May 6, 2004
 Mesaverde Objective
 MLB 11/15/02

Tract Description	Lease	Tract Acres	Tract Participation Factor
Tract 1	Fee - Dunham	160.00	50.00%
T25N-R2W	NM-039-007196		
Section 14: SW/4			
Shallow = (Dunham #9 PC-Fundingsland)			
Deep = McElvain (Undeveloped)			
Tract 2	Fee - Dunham	160.00	50.00%
T25N-R2W			
Section 14: NW/4			
Shallow - Fee #1 - NM&O			
Deep - IbeX, et al			
Drillsite Totals		320.00	100.00%

Mesaverde

Owner	Tract 1			Tract 2			Total WI	Total NRI
	WI	NRI	TPF WI	TPF NRI	WI	NRI		
THM O&G LP	45.466406%	36.37313%	22.733203%	18.186562%			22.733203%	18.186562%
Four Star Oil & Gas Company	25.000000%	21.875000%	12.500000%	10.937500%			12.500000%	10.937500%
San Juan Gas Corporation	18.750000%	15.46875%	9.375000%	7.734374%			9.375000%	7.734374%
Williams Production Company	7.031250%	6.01172%	3.515625%	3.005859%			3.515625%	3.005859%
NM&O Operating	2.814844%	2.317793%	1.407422%	1.158896%	25.000000%	21.875000%	13.907422%	12.096396%
Arriba Company Ltd	0.937500%	0.773438%	0.468750%	0.386719%			0.468750%	0.386719%
Mountain States Natural Gas Corp					12.500000%	10.937500%	6.250000%	5.468750%
Ramona Sweet Revocable Trust					3.125000%	2.734375%	1.562500%	1.367188%
Hooper, Kimball Williams					25.000000%	21.875000%	12.500000%	10.937500%
Christopher Phillips					3.125000%	2.734375%	1.562500%	1.367188%
Petco, Ltd.					11.706547%	10.243229%	5.853274%	5.121614%
Ibex Partnership, Inc.					11.706547%	10.243229%	5.853274%	5.121614%
Trade Exploration, Corp.					6.250000%	5.468750%	3.125000%	2.734375%
Carolyn Clark Oatman					1.586906%	1.388543%	0.793452%	0.694271%
Overriding Royalties								0.000000%
Cyprus Mines Corp	0.500000%			0.250000%				0.250000%
L W Wickes Agent corp	1.000000%			0.500000%				0.500000%
Williams Productionco.	0.91406%			0.457032%				0.457032%
John H. Williams	0.375000%			0.187500%				0.187500%
Charles P. Williams	0.18750%			0.093750%				0.093750%
David R. Williams, Jr.	0.18750%			0.093750%				0.093750%
Wilbur Holeman, et al	0.37500%			0.187500%				0.187500%
Peter C. Neumann, Trustee	0.57056%			0.285279%				0.285279%
Noseco Corp.	0.57056%			0.285279%				0.285279%
LOR								
Totals	100.000000%	100.000000%	50.000000%	50.000000%	100.000000%	100.000000%	100.000000%	100.000000%

MCELVAIN OIL AND GAS, PROPERTIES, INC.

AUTHORITY FOR EXPENDITURE

SUMMARY FOR EXPENDITURES EXPLORATION & DEVELOPMENT

WELL INFORMATION

DATE:	November 11, 2003	AFE NO.:	DONM04000049
WELL NAME:	Badger 14 #1	McELVAIN WELL NO.:	NM0069-59
LOCATION:	T25N-R2W, Sec 14: NWNW		
COUNTY	Rio Arriba		
STATE	New Mexico		
PROPOSED DEPTH:			
PURPOSE OF AFE:	Drill and complete Mesaverde Test		

COST ESTIMATES

Intangible Drilling Costs:	\$345,300	
Tangible Drilling Costs	\$36,420	
SUB TOTAL TO CASING POINT		\$381,720
Plugging and Abandonment Costs	\$7,500	
TOTAL DRY HOLE COSTS:		\$389,220
Intangible Completion Costs:	\$236,900	
Tangible Completion Costs:	\$95,360	
TOTAL COMPLETION COSTS:		\$332,260
TOTAL COMPLETED WELL COSTS:		\$713,980
Facilities Land, Geological, Geophysical, Prospect		
TOTAL THIS AFE:		\$713,980

APPROVALS

COMPANY:	T. H. McElvian Oil & Gas Ltd.	WORKING INTEREST:	22.733203%
BY:	By: McElvain Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	DATE:	
COMPANY:	Four Star Oil & Gas Company	WORKING INTEREST:	12.500000%
BY:		DATE:	
COMPANY:	San Juan Gas Corporation	WORKING INTEREST:	9.375000%
BY:		DATE:	
COMPANY:	Ramona Sweet Revocable Trust	WORKING INTEREST:	1.562500%
BY:		DATE:	
COMPANY:	Christopher Phillips	WORKING INTEREST:	1.562500%
BY:		DATE:	
COMPANY:	Hooper, Kimball & Williams	WORKING INTEREST:	12.500000%
BY:		DATE:	
COMPANY:	Williams Production Company	WORKING INTEREST:	3.515625%
BY:		DATE:	
COMPANY:	NM&O Operating Company	WORKING INTEREST:	13.907422%
BY:		DATE:	
COMPANY:	Arriba Company Ltd	WORKING INTEREST:	0.468750%
BY:		DATE:	
COMPANY:	Mountain States Natural Gas Corp.	WORKING INTEREST:	6.250000%
BY:		DATE:	

SEE PAGE 2 FOR REMAINING WORKING INTEREST OWNERS

McELVAIN OIL & GAS PROPERTIES, INC.

AUTHORITY for EXPENDITURE

November 10, 2003

Badger Com 14 #1 NW/NW Sec.14 T25N R2W	DRY HOLE	COMPLETED WELL
Drilling Intangibles		
Staking, Permitting, Title Work & Survey	3,500	3,500
Location, Road, Damages, Pit Liner	30,000	30,000
Drilling Rig..Daywork..13days @ \$8500/day	110,500	110,500
Rig fuel 12days @ \$1200/day	14,400	14,400
Rig MOB & DEMOB	30,000	30,000
Bits/Air Hammer	15,500	15,500
Drilling Mud	13,000	13,000
Water Hauling	8,500	8,500
Air Compressors	20,000	20,000
Rental Equipment	8,500	8,500
Open Hole Logs	12,000	12,000
Cement & Services..Surface & Intermediate	35,000	35,000
Cement & Services..Plugging	7,500	
Trucking	7,500	7,500
Casing & Drill Pipe Inspection	5,000	5,000
Casing Crew	5,000	5,000
Roustabout & Other Labor	2,500	2,500
Overhead & Supervision 14 days @ \$850/day	11,900	11,900
Misc Costs	2,500	2,500
Contingency	10,000	10,000
Total Drilling	352,800	345,300

Completion Intangibles		
Cement & Services..Production Casing		22,500
Completion Unit 10 days @ \$2,500/day		25,000
Bits		1,000
Logging & Perforating		14,000
Stimulation		95,000
BOP, Tool & Tank Rental		14,000
Supervision & Overhead 14 days @ \$850/day		11,900
Water		2,500
Trucking		8,500
Casing Crew		2,500
Casing Inspection		2,000
Roustabouts/Labor 8 days @ \$2000/day		16,000
Location Reclaim		10,000
Contingency		12,000
Total Completion	0	236,900
Total Intangibles	352,800	582,200

Tangibles		
Casing..Surface 600' 9 5/8" @ \$12.20/ft	7,320	7,320
Casing..Intermediate 3650' 7" @ \$7.15/ft	26,100	26,100
Casing..Liner 2420' 4 1/2" @ \$3.70/ft.		8,960
Tubing..5950' 2 3/8" @ \$2.00/ft		11,900
Liner Hanger		11,500
Float Equipment	1,500	3,000
Wellhead	1,500	8,500
Tanks & Pits		20,000
Separator/Dehydrator		20,000
Atrifical Lift		6,500
Line Pipe & Fittings		8,000
Total Tangibles	36,420	131,780

Total Well Cost \$389,220 \$713,980

APPROVALS:

McElvain Oil & Gas Properties, Inc.



Date: 11-11-03