

McElvain Oil & Gas Properties, Inc.

1050 17TH STREET, SUITE 1800
DENVER, COLORADO 80265

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LAND MANAGER
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VIA OVERNIGHT MAIL - RETURN RECEIPT REQUESTED

March 28, 2001

TO WORKING INTEREST OWNERS
(See attached addressee list)

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

Gentlemen:

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

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

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

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

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

MLB/idi
Encls.

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

WORKING INTEREST OWNERS
Naomi #1

T. H. McElvain Oil & Gas Limited Partnership
1050 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

NAOMI #1 WELL

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

December 1 , 2000 ,

OPERATOR McElvain Oil & Gas Properties, Inc.

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

Section 25: S/2

Limited to those depths below the base of the Pictured

Cliffs formation

COUNTY OR PARISH OF Rio Arriba STATE OF New Mexico

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

Exhibit "A"

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

I. LANDS SUBJECT TO OPERATING AGREEMENT

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

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

All depths below Pictured Cliffs Formation

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

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

OPERATOR

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

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

T. H. McElvain Oil & Gas Limited Partnership c/o McElvain Oil & Gas Properties, Inc. 1050 17th Street, Suite 1800 Denver, Colorado 80265	50.000%
D. J. Simmons Company Limited Partnership 1009 Ridgeway Place Farmington, NM 87401	25.000%
Forcenergy Onshore, Inc. c/o Forest Oil Company 1600 Broadway, Suite 2200 Denver, CO 80202	12.500%
Herbert Kai P. O. Box 500 Rilliot, Arizona 85654	9.375%
Dugan Production Corporation 709 East Murray Drive Farmington, NM 87499	3.125%

IV. OIL & GAS LEASES SUBJECT TO THIS AGREEMENT

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