

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

April 12, 2001

TO WORKING INTEREST OWNERS
(See Attached Addressee List)

Re: Cougar Com #5-2 Well Proposal
Township 25 North, Range 2 West
Section 5: SE/4
Rio Arriba County, New Mexico

Gentlemen:

McElvain Oil & Gas Properties, Inc., as sole general partner and Operator in behalf of T. H. McElvain Oil & Gas Limited Partnership ("McElvain") hereby proposes the drilling of 6,200' Mesaverde test well to be at a legal location in the SE/4 of Section 5, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$807,335 which is detailed on the enclosed McElvain Authority for Expenditure dated March 8, 2001. Pursuant to McElvain's review of the records reflects the ownership of the E/2 of Section 5 (Lots 1, 2, S/2NE/4, SE/4) as the dedicated proration unit to be as follows:

T.H. McElvain Oil & GAS Limited Partnership	36.201120% (*)
Mesa Grande Resources, Inc.	22.226185%
Mesa Grande Ltd.	11.865500%
Gavilan Dome Properties	4.690313%
Arriba Company Ltd.	0.624500%
Hooper, Kimball & Williams	8.329999%
Cherokee Operating Co.	7.634567%
Ibex Partnership	3.900622%
Petco Limited	3.900622%
Carolyn Clark Oatman	0.218620%
Warren Clark Trust	0.203369%
Testamentary Trust u/w/o Warren Clark	0.106767%
Premier Operating Co.	0.097816%

(*)Pending title transfer to T. H. McElvain Oil & Gas Limited Partnership pursuant to individual arrangements with Noseco Corporation 2.691656%, Neumann Family Trust 4.69125%, and NM&O Operating Company 16.312593%.

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. 12693 Exhibit No. 3

Submitted by:
McElvain Oil & Gas Properties, Inc.
Hearing Date: September 20, 2001

To Working Interest Owners
Cougar Com #5-2 Well
April 12, 2001
Page 2

across the designated spacing unit (E/2 of Section 5) 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 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:

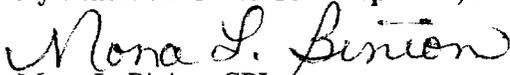
McElvain Oil & Gas Properties, Inc.
(303) 893-0914
Attention: Mona L. Binion

provided that original copies are delivered promptly thereafter.

McElvain is an active operator in this currently drilling and completing new wells and re-entering re-completing existing 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 test well described herein is scheduled in this program to commence mid year 2001 and in light of the circumstances and in order to avoid additional delays which could arise from weather conditions or sensitive surface restrictions, we respectfully request that you review and respond to this proposal at your earliest possible convenience. If you have any questions concerning this proposal, please feel free to contact the undersigned.

Very truly yours,

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


Mona L. Binion, CPL
Land Manager

MLB/idi

Encls.

WORKING INTEREST OWNERS

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

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

Mesa Grande Ltd.
6 E 5th #2000
Tulsa, OK 74103

Gavilan Dome Properties
1800 Cedarwood Drive
Moraga, CA 94556

Arriba Company Ltd.
P.O. Box 35304
Tulsa, OK

Hooper, Kimball & Williams
5550 S. Lewis, Suite 301
Tulsa, OK 74105

Cherokee Operating Co.
1888 Century Park #370
Los Angeles, CA 90067

Ibex Partnership
Box 911
Breckenridge, TX 76424-0911

Petco Limited
Box 911
Breckenridge, TX 76424-0911

Carolyn Clark Oatman
Drawer 310
Bastrop, TX 78602

Warren Clark Trust
Box 73
Austin, TX 78767

Testamentary Trust u/w/o Warren Clark
Box 1846
Austin, TX 78700

Premier Operating Co.
POB 35984
Tulsa,, OK 74153-0984

ELECTION PAGE

Cougar Com #5-2 Well

March 29, 2001

YES, I/We do hereby elect to participate in the drilling of the Cougar Com #5-2 Well as a Mesaverde test to be located in the SE/4of Section 5, 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 Cougar Com #5-2 Well as a Mesaverde test to be located in the SE/4of Section 5, 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 and 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

Cougar Corn #5-2 Well
Working / Net Revenue Estimates
E/2 Section 5, T25N-R2W
From Base of Pictured Cliffs to Base of Mesaverde

160.20

Tract 1
 Lots 1, 2, S/2NE/4 Section 5
 NM-1806
 160.20 acres
Below base of PC to 150' below base of DK

80.00

Tract 2
 N/2SE/4 Section 5
 NM 01804
 80 acres
Below base of PC

40.00

Tract 3
 SE/4SE/4 Section 5
 NM 43749
 40 acres
Below base of PC to 150' below base of DK

40.00

Tract 4
 SW/4SE/4 Section 5
 NM 86892
 40 acres
All Depths

320.20

Owner	Tract 1 50.03%			Tract 2 24.99%			Tract 3 12.49%			Tract 4 12.49%			Drillsite Total	
	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI	TPF WI
T.H.McElvain LTD (NM&O Operating)	6.445275%	3.224571%	2.391430%	0.597618%					100.00000%	12.490000%			16.312189%	
T.H.McElvain LTD (Noseco Corporation)	5.379008%	2.691118%											2.691118%	
T.H.McElvain LTD (Neumann Trust)	34.375000%	17.197813%											17.197813%	
Mesa Grande Resources	44.425717%	22.226185%											22.226185%	
Gavilan Dome Properties	9.375000%	4.690313%											4.690313%	
Mesa Grande LTD									95.0000%	11.865500%			11.865500%	
Arriba Company, Ltd									5.0000%	0.624500%			0.624500%	
Hooper, Kimball & Williams			33.333330%	8.329999%									8.329999%	
Cherokee Operating (NM&O??)			30.550490%	7.634567%									7.634567%	
Ibex Partnership			15.608730%	3.900622%									3.900622%	
Petco Limited			15.608730%	3.900622%									3.900622%	
Carolyn Clark Oatman			0.874830%	0.218620%									0.218620%	
Warren Clark Trust			0.813800%	0.203369%									0.203369%	
Testamentary Trust w/w/o Warren Clark			0.427240%	0.106767%									0.106767%	
Premier Operating Co.			0.391420%	0.097816%									0.097816%	
Totals	100.000000%	50.030000%	100.000000%	24.990000%	100.000000%	12.490000%	100.000000%	12.490000%	100.000000%	12.490000%	100.000000%	12.490000%	100.000000%	100.000000%

ELECTION PAGE

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Mona Binion

McElvain Oil & Gas Properties, Inc.

1050 17th Street, Suite 1800

Denver, CO 80265

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

AFE NUMBER:	
DATE:	4/12/2001
WELL NAME:	Cougar Com 5 #2
LOCATION:	T25N-R2W SEC. 5 SE/4
COUNTY:	RIO ARRIBA COUNTY
STATE:	NEW MEXICO
PROPOSED DEPTH:	6200'
PURPOSE OF AFE:	Drill Mesaverde test well

Intangible Drilling Costs:	\$310,150	
Tangible Drilling Costs	\$38,430	
SUB TOTAL TO CASING POINT		\$348,580
Plugging and abandonment cost	\$10,000.00	
TOTAL DRY HOLE COSTS	\$358,580.00	
Intangible Completion Costs:	\$364,350	
Tangible Completion Costs:	\$94,405	
TOTAL COMPLETION COSTS:		\$458,755
TOTAL COMPLETED WELL COSTS:		\$807,335
Facilities		
Land, Geological, Geophysical, Prospect		
TOTAL THIS AFE:		\$807,335

APPROVALS			
COMPANY:	T. H. McElvian Oil & Gas Ltd.	WORKING INTEREST:	36.201120%
BY:	By: McElvian Oil & Gas Properties Inc., General Partner	DATE:	
COMPANY:	Mesa Grande Resources	WORKING INTEREST:	22.226185%
BY:		DATE:	
COMPANY:	Gavilan Dome Peoperties	WORKING INTEREST:	4.690313%
BY:		DATE:	
COMPANY:	Mesa Grande LTD	WORKING INTEREST:	11.865500%
BY:		DATE:	
COMPANY:	Arriba Company Ltd.	WORKING INTEREST:	0.624500%
BY:		DATE:	
COMPANY:	Hooper, Kimball & Williams	WORKING INTEREST:	8.329999%
BY:		DATE:	
COMPANY:	Cherokee Operating Co.	WORKING INTEREST:	7.634567%
BY:		DATE:	
COMPANY:	Ibex Partmentship	WORKING INTEREST:	3.900622%
BY:		DATE:	
COMPANY:	Petco Limited	WORKING INTEREST:	3.900622%
BY:		DATE:	
COMPANY:	Carolyn Clark Oatman	WORKING INTEREST:	0.218620%
BY:		DATE:	
COMPANY:	Warren Clark Trust	WORKING INTEREST:	0.203369%
BY:		DATE:	
COMPANY:	Testamentry Trust u/w/o Warren Clark	WORKING INTEREST:	0.106767%
BY:		DATE:	
COMPANY:	Premier Operating Co.	WORKING INTEREST:	0.097816%
BY:		DATE:	
COMPANY:		WORKING INTEREST:	
BY:		DATE:	

100.0000000%

McELVAIN OIL & GAS PROPERTIES, INC.

AUTHORITY for EXPENDITURE

March 8, 2001

Cougar Com 5 #2 SE/4 Sec. 5 T25N R2W	DRY HOLE	COMPLETED WELL
Drilling Intangibles		
Title Work & Survey	3,500	3,500
Location, Road, Damages	30,000	30,000
Footage 6200' @ \$23.00/ft	142,600	142,600
Daywork 2.5 days @ \$8500/day	21,250	21,250
Air Compressors 5 days @ \$3200/day	16,000	16,000
Water Hauling	7,500	7,500
Rental Equipment	1,800	1,800
Well Logging	20,000	20,000
Drilling Mud	5,500	5,500
Cement & Services..Surface, Intermediate	25,000	25,000
Cement & Services..Plugging	10,000	
Trucking & Labor	10,000	10,000
Overhead & Supervision	15,000	15,000
Misc Costs	12,000	12,000
Contingency		
Total Drilling	320,150	310,150

Completion Intangibles		
Cement & Services..Production Casing		12,500
Completion Unit 20 days @ \$2,500/day		50,000
Logging & Perforating		15,000
Stimulation		180,000
Tool & Tank Rental		27,000
Supervision 20 days @ \$650/day		13,000
Water		25,000
Trucking		6,000
Roustabouts/Labor 7 days @ \$2000/day		14,000
Specialized Tools		4,500
5% Contingency		17,350
Total Completion	0	364,350

Total Intangibles 320,150 674,500

Tangibles		
Casing..Surface 600' 9 5/8" @ \$12.80/ft.	7,680	7,680
Casing..Production 3750' 7" @ \$7.40/ft.	27,750	27,750
Casing..Liner 2450' 4 1/2" @ 3.70/ft		9,065
Liner Hanger		9,500
Float Equipment	1,500	2,500
Tubing..6200' 2 3/8" @ \$2.20/ft		13,640
Wellhead	1,500	8,500
Artificial Lift		6,500
Tanks & Pits		22,200
Separator		17,500
Line Pipe & Fittings		8,000
Total Tangibles	38,430	132,835

Total Well Cost \$358,580 \$807,335

APPROVALS:

McElvain Oil & Gas Properties, Inc.



Date: 3/9/01