

T. H. McELVAIN OIL & GAS LIMITED PARTNERSHIP
McElvain Oil & Gas Properties, Inc., Sole General Partner

1050 – 17TH STREET, SUITE 1800
DENVER, COLORADO 80265

TELEPHONE 303-893-0933 EXT.329
FAX 303-893-0914
e-mail: deniseg@mcelvain.com

Certified Mail, Return Receipt Requested

December 1, 2004

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
1220 So. St. Francis Drive
PO Box 6429
Santa Fe, NM 87502

TO: See attached list

RE: Estimated Well Cost
Badger 14 #1
W/2 Section 14, T25N-R2W
Rio Arriba County, NM

2004 DEC 6 PM 3 54

Ladies and Gentlemen:

Pertaining to the order from New Mexico Oil Conservation Commission R-12226 for the compulsory pooling application and hearing, Case No. 13340, enclosed is the estimated well cost for the Badger 14 #1 well, located in the W/2 of Section 14, T25N, R2W, N.M.P.M., Rio Arriba County, New Mexico, along with a copy of NMOCD Order No. R-12226.

Referenced is made to Page 3, Paragraph (7), et seq of said Order R-12226, pertaining to the rights of working interest owners to pay its share of estimated well costs within 30 days hereof, in lieu of paying its share of reasonable well costs and risk charges out of production. The estimated well costs for the Badger 14 #1 are \$713,980. A copy of McElvain Oil & Gas Properties, Inc. Authority for Expenditure, which details this estimate, is enclosed herewith for your information.

Very truly yours,

McELVAIN OIL & GAS PROPERTIES, INC.



Denise R. Greer
Landman

DRG/njr
Enclosures (AFE & Order)

Working Interest Owners
Affected by NMOCD Order No. R-12226
Badger 14 #1 Well
W/2 Section 14, T25N, R2W

Four Star Oil & Gas Company
PO Box 36366
Houston, TX 77236

Christopher Phillips
23 West 4th Street, Suite 900
Tulsa, OK 74103

San Juan Gas Corporation
1318 Philtower Building
Tulsa, OK 74101-3100

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

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

**CASE NO. 13340
ORDER NO. R-12226**

**APPLICATION OF MCELVAIN OIL AND GAS PROPERTIES, INC., FOR
COMPULSORY POOLING, RIO ARriba COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 16, 2004, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim

NOW, on this 26th day of October, 2004, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, McElvain Oil and Gas Properties, Inc., ("Applicant"), seeks an order pooling all uncommitted mineral interests in all formations from the surface to the base of the Mesaverde formation underlying the W/2 of Section 14, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, in the following manner:

The W/2 to form a standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent, which includes but is not necessarily limited to the Blanco-Mesaverde Gas Pool.

(3) The above-described unit ("the Unit") is to be dedicated to the applicant's proposed Badger Com 14 Well No. 1 to be drilled at a standard gas well location in Unit D of the NW/4 of said Section 14, at a point 785 feet from the North line and 1290 feet from the West line to a depth sufficient to test any and all formations to the base of the Mesaverde formation.

(4) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(5) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill its Badger Com 14 Well No. 1 at a standard well location 785 feet from the North line and 1290 feet from the West line to a depth sufficient to test any and all formations to the base of the Mesaverde formation.

(6) There are interest owners in the proposed Unit that have not agreed to pool their interests.

(7) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(8) The applicant should be designated the operator of the subject well and of the Unit.

(9) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% (pursuant to rule 35.A) thereof as a reasonable charge for the risk involved in drilling the well.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,500.00 per month while drilling and \$550.00 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of McElvain Oil and Gas Properties, Inc., all uncommitted mineral interests in all formations from the surface to the base of the Mesaverde formation underlying the W/2 of Section 14, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled in the following manner:

The W/2 to form a standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent, which includes but is not necessarily limited to the Blanco-Mesaverde Gas Pool.

The above-described unit ("the Unit") is to be dedicated to the applicant's proposed Badger Com 14 Well No. 1 to be drilled at a standard gas well location in Unit D of the NW/4 of said Section 14, at a point 785 feet from the North line and 1290 feet from the West line to a depth sufficient to test any and all formations to the base of the Mesaverde formation.

(2) McElvain Oil and Gas Properties, Inc., is hereby designated the operator of the subject well and of the Unit.

(3) The operator of the Unit shall commence drilling the proposed well on or before January 30, 2005 and shall thereafter continue drilling the well with due diligence to test the Morrow formation.

(4) In the event the operator does not commence drilling the proposed well on or before January 30, 2005, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the subject well not be drilled and completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the subject well, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including un-leased mineral interests, who are not parties to an operating agreement governing the Units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the

Unit an itemized schedule of estimated costs of drilling, completing and equipping the subject well ("well costs").

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(12) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,500.00 per month while drilling and \$550.00 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(14) Except as provided in Ordering Paragraphs (11) and (13) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Rio Arriba County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

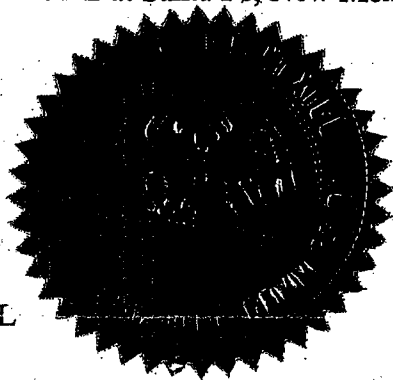
(16) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(17) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(18) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Case No. 13340
Order No. R-12226
Page 6

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, PE
Director

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	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

SUMMARY FOR EXPENDITURES EXPLORATION & DEVELOPMENT

APPROVALS - Cont'd

[illegible]

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 *OR*

APPROVALS:

McElvain Oil & Gas Properties, Inc.

[Signature]

Date: 11-11-03