

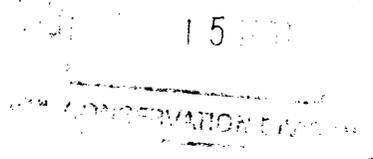
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3-15-00

McELVAIN OIL & GAS PROPERTIES, INC.

409 ST. MICHAELS
P.O. Box 2148
SANTA FE, NEW MEXICO 87504-2148

TELEPHONE 505/982-1935 EXT. 115
FAX 505/984-3027

STEVE JORDAN, CPL
LAND MANAGER



March 14, 2000

CASE NO. 12350
Order No. R-10858-A

State of New Mexico
Energy, Minerals and Natural Resources Department
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

TO: AFFECTED OWNERS IN SECTION 3: LOTS 3, 4, S/2NW/4, SW/4 (W/2), TOWNSHIP 25 NORTH, RANGE 2 WEST, N.M.P.M. (see attached list)

RE: ESTIMATED WELL COSTS: ELK COM #1A (FORMERLY ELK COM 3 #1A)
W/2 3-25N-2W
RIO ARRIBA COUNTY ,NEW MEXICO

Ladies and Gentlemen:

Pertaining to the order from the New Mexico Oil Conservation Commission R-10858-A for the compulsory pooling application and hearing, Case No. 12350, please find enclosed the estimated well costs for the Elk Com #1A (formerly Elk Com 3 #1A) well, located in the W/2 of Section 3, T25N, R2W, N.M.P.M., Rio Arriba County, New Mexico, along with a copy of NMOCD Order R-10858-A.

Please refer to paragraph 8, et seq., of said Order R-10858-A, pertaining to the rights of a working interest owner 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 Elk Com #1A well are \$635,070.00. Our AFE in that amount is enclosed.

Please direct any questions in these regards to the undersigned at (505) 982-1935, ext. 115.

Very truly yours,

Steve Jordan

Attachment (Owner List)
Enclosures (AFE & Order)

**ELK COM #1A (MV)
JIB DIVISION OF INTEREST**

**Township 25 North, Range 2 West, N.M.P.M.
Section 3: Lots 3 & 4, S/2NW/4, SW/4 (W/2)
containing 320.97 acres, more or less
Rio Arriba County, New Mexico**

ADDRESSES AND PERCENTAGES OF WORKING INTERESTS

	<u>BPO</u>	<u>APO</u> ¹
McElvain Oil & Gas Properties, Inc. P.O. Box 2148 Santa Fe, New Mexico 87504-2148	OPERATOR	
T.H. McElvain Oil & Gas Limited Partnership P.O. Box 2841 Santa Fe, New Mexico 87501-2148	30.090662%	30.090662%
Noseco Corporation, a Nevada corporation 7400 Lakeside Drive Reno, NV 89511	16.867455%	15.286131%
Neumann Family Trust c/o Peter C. Neumann P.O. Box 1170 Reno, Nevada 89504	13.356653%	12.104467%
Gavilan Dome Properties, a California Limited Partnership c/o Skredynski & Company, General Partner 1180 Cedarwood Drive Moraga, CA 94556	10.785990%	9.774803%
James M. Raymond, a married man dealing in his separate property P.O. Box 1445 Kerrville, Texas 78028	10.030221%	10.030221%
John S. Brown, Jr., a single man P.O. Box 31639 El Paso, Texas 79931	6.018132%	6.018132%
Mesa Grande Resources, Inc., an Oklahoma corporation 1200 Philtower Bldg. Tulsa, Oklahoma 74103	4.554888%	4.127868%
NM & O Operating Company 6 E. 5th Street, Suite 200 Tulsa, OK 74103	3.505021%	3.176425%
George A. Lippman, a married man dealing in his separate property 5862 Cromo Drive, Suite 199 El Paso, Texas 79912	1.003022%	1.003022%
J. Roger Friedman c/o Lebhar-Friedman 425 Park Avenue New York, New York 10022	1.003022%	1.003022%

Patricia M. Friedman c/o Lebhar-Friedman 425 Park Avenue New York, New York 10022	1.003022%	1.003022%
Joe Elledge, a married man dealing in his separate property P.O. Box 111 Farmington, New Mexico 87499	1.003023%	1.003023%
Johansen Energy Partnership P.O. Box 1773 Whitefish, MT 59937	0.778889%	0.705868%
Williams Production Company ² P.O. Box 3102 Tulsa, Oklahoma 74101	0.000000%	4.673334%
Dugan Production Corporation ³ P.O. Box 420 Farmington, NM 87499-0420	0.000000%	0.000000%
Totals:	100.000000%	100.000000%

¹ Payout is defined in that certain Agreement for Purchase and Sale dated August 1, 1986, between Northwest Pipeline Corporation and Mesa Grande Resources, Inc..

² Under that certain Assignment, Conveyance and Bill of Sale, from Northwest Pipeline Corporation to Mesa Grande Resources, Inc., effective as of September 11, 1986, recorded BK 114, PG 1041, Northwest Pipeline Corporation reserved a 3% ORRI (proportionately reduced to 2.25% of 8/8ths), and a 1/8th reversionary WI (proportionately reduced to 9.375% of 8/8ths), all in the SW/4 of Section 3. In that same instrument, Northwest Pipeline reserved and retained a 3/16th WI (proportionally reduced to 14.0625%); however a subsequent record title assignment filed with the BLM dated December 2, 1986, appears to have included said retained WI in the grant to Mesa Grande Resources. The interests of Northwest Pipeline (Williams Production Company), Mesa Grande, et al, are subject to an unrecorded Agreement for Purchase and Sale dated August 1, 1986, between Northwest Pipeline Corporation and Mesa Grande Resources, Inc., and a First Amendment to Purchase and Sale Agreement dated September 11, 1986, between the same parties.

³ Under Assignment of Oil and Gas Lease from Dugan Production Corporation to Mesa Grande Resources, Inc., dated March 3, 1988, recorded BK 122, PG 5, Dugan reserved a 2.125% of 8/8ths ORRI, 0.5% of which may be converted to a 12.5% WI upon payout as defined in that certain Farmout Agreement dated December 31, 1987, all in the SW/4 of Section 3. Dugan may claim other interests in and to the leasehold below the base of the Pictured Cliffs formation in the SW/4 by virtue of the aforementioned assignment or under the 1987 Farmout Agreement.

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. 12350
ORDER NO. R-10858-A

APPLICATION OF MCELVAIN OIL & 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 March 2, 2000, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 10th day of March, 2000, 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 its subject matter.
- (2) The applicant, McElvain Oil & Gas Properties, Inc. ("McElvain"), seeks an order pooling all uncommitted mineral interests from the base of the Pictured Cliffs formation to the base of the Mesaverde formation underlying Lots 3 and 4, the S/2 NW/4 and the SW/4 (W/2 equivalent) of Section 3, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico thereby forming a standard 320.97-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include the Blanco-Mesaverde Gas Pool.
- (3) This unit is to be dedicated to the applicant's proposed Elk Com 3 Well No. 1A to be drilled and completed at a standard gas well location within the SW/4 of Section 3. The subject well is the first optional infill well pursuant to Division Order No. R-10987, issued in Case No. 11705 and dated May 7, 1998. The initial well, McElvain's Elk Com Well No. 1 (API No. 30-039-25874), was drilled in the NW/4 of Section 3 under Division Order R-10858, issued in Case No. 11822 and dated August 11, 1997.
- (4) The applicant is a working interest owner within the proposed 320.97-acre

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proration unit and therefore has the right to drill for and develop the minerals underlying this unit.

(5) There are interest owners in the proposed 320.97-acre proration unit that have not agreed to pool their interests.

(6) NM&O Operating Company ("NM&O"), an interest owner in the proposed 320.97-acre proration unit, appeared at the hearing through legal counsel. NM&O did not present evidence or testimony in support of or in opposition to this application. No other affected party appeared at the hearing or objected to this application.

(7) To avoid the drilling of unnecessary wells, protect correlative rights, avoid waste, and afford to each interest owner 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 mineral interests, whatever they may be, within the unit.

(8) McElvain is currently the operator of the subject proration unit and the Elk Corn Well No. 1 located in the NW/4 of Section 3, and should be designated the operator of the subject well.

(9) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(10) Any non-consenting 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 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(11) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

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(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,484.00 per month while drilling and \$ 548.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of Exhibit "C" (*Accounting Procedure-Joint Operations*) to the Operating Agreement dated December 1, 1999, which was McElvain's Exhibit No. 4. The operator should be 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 each non-consenting working interest.

(14) All proceeds from production from the well that are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(15) If the operator of the pooled unit fails to commence drilling the well to which the unit is dedicated on or before June 15, 2000, or if all the parties to this compulsory pooling reach voluntary agreement subsequent to entry of this order, this order should become of no effect.

(16) The operator of the well and unit should notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of McElvain Oil & Gas Properties, Inc., all uncommitted mineral interests from the base of the Pictured Cliffs formation to the base of the Mesaverde formation underlying Lots 3 and 4, the S/2 NW/4 and the SW/4 (W/2 equivalent) of Section 3, Township 25 North, Range 2 West, NMPM, Rio Arriba County, New Mexico, are hereby pooled forming a standard 320.97-acre gas spacing and proration unit for formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include the Blanco-Mesaverde Gas Pool.

(2) The 320.97-acre unit is to be dedicated to McElvain's proposed Elk Com 3 Well No. 1A to be drilled and completed at a standard gas well location within the SW/4 of Section 3. The subject well is the first optional infill well pursuant to Division Order No. R-10987, issued in Case No. 11705 and dated May 7, 1998. The initial well, McElvain's Elk Com Well No. 1 (API No. 30-039-25874), was drilled in the NW/4 of Section 3 under Division Order R-10858, issued in Case No. 11822 and dated August 11, 1997.

(3) The operator of the unit shall commence drilling the proposed well on or

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before June 15, 2000, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Mesaverde formation.

(4) In the event the operator does not commence drilling the well on or before June 15, 2000, 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 well not be drilled to completion or abandoned within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(6) McElvain Oil & Gas Properties, Inc. is hereby designated the operator of the well and unit.

(7) After pooling, uncommitted working interest owners are referred to as "non-consenting working interest owners." After the effective date of this order and within 90 days prior to commencing the well, the operator shall furnish the Division and each known non-consenting working interest owner in the unit an itemized schedule of estimated well costs.

(8) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting 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, 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.

(9) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 the reasonable well costs; provided, however, that 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 non-consenting working interest owner who has paid its share of estimated well 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 its share of the amount that estimated well costs exceed reasonable well costs.

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(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 who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and

(b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

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

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,484.00 per month while drilling and \$548.00 per month while producing, provided that this rate should be adjusted annually pursuant to Section III.1.A.3. of Exhibit "C" (*Accounting Procedure-Joint Operations*) to the Operating Agreement dated December 1, 1999, which was McElvain's Exhibit 4. The operator is hereby 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 each non-consenting working interest.

(14) 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.

(15) Any well costs or charges that are to be paid out of production pursuant to this order 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) All proceeds from production from the well that are not disbursed for any reason shall immediately 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.

(17) 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.

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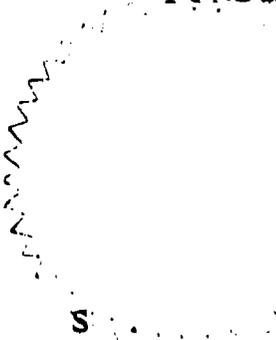
(18) The operator of the well and unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(19) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director



McELVAIN OIL & GAS PROPERTIES, INC.
AUTHORITY for EXPENDITURE
 October 20, 1999

Elk Com #1A SW/4 Section 3 T25N R2W	DRY HOLE	COMPLETED WELL
Drilling Intangibles		
Title Work & Survey	5,000	5,000
Location, Road, Damages	25,000	25,000
Drilling Footage 6400' @ \$22.00/ft	140,800	140,800
Drilling Daywork 1.5 days @ \$5800/day	8,700	8,700
Water Hauling	7,500	7,500
Rental Equipment	1,800	1,800
Well Logging	14,000	14,000
Drilling Mud	25,000	25,000
Cement & Services..Cond, Surface, Intermediate	17,000	17,000
Cement & Services..Plugging	6,000	
Trucking & Labor	4,000	4,000
Overhead & Supervision	10,000	10,000
Misc Costs	7,500	7,500
Contingency		
Total Drilling	272,300	266,300
Completion Intangibles		
Cement & Services..Production Casing		9,300
Completion Unit 10 days @ \$2,500/day		25,000
Logging & Perforating		21,000
Stimulation		125,000
Tool & Tank Rental		26,000
Supervision 13 days @ \$650/day		8,450
Water		21,000
Trucking		7,200
Roustabouts/Labor 5 days @ \$2000/day		10,000
Specialized Tools		4,500
5% Contingency		12,900
Total Completion	0	270,350
Total Intangibles	272,300	536,650
Tangibles		
Casing..Surface 300' 9 5/8" @ \$11.00/ft.	3,300	3,300
Casing..Intermediate 4100' 7" @ \$6.20/ft.	25,420	25,420
Casing..Liner 2220' 4 1/2" @ 3.60/ft		8,000
Liner Hanger		9,400
Float Equipment	1,500	2,500
Tubing..6400' 2 3/8" @ \$2.00/ft		12,800
Wellhead	1,500	9,500
Tanks & Pits		7,500
Separator & Dehydrator		15,000
Line Pipe & Fittings		5,000
Total Tangibles	31,720	98,420

Total Well Cost \$304,020 \$635,070

APPROVALS:

McElvain Oil & Gas Properties, Inc.



Date: 10/20/99

Investor Approval: _____

Date: _____