
D.J. SIMMONS, INC.

September 13, 2001

FAX/CERTIFIED MAIL

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

ATTN: Ms. Mona L. Binion, Land Manager

RE: Ojito South Prospect
Township 25 North – Range 3 West, MNPM
Section 25
Rio Arriba County, New Mexico

Dear Ms. Binion,

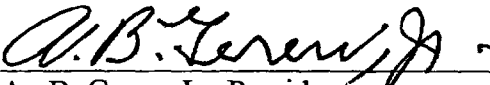
D. J. Simmons, Inc., in an effort to settle disputes concerning well spacing and gas proration units covering lands in Section 25, Township 25 North – Range 3 West, NMPM, Rio Arriba County, New Mexico, proposes the following settlement for your perusal and comments.

Simmons would ~~sell~~ to McElvain the N/2SE/4 of Section 25 for \$200.00 per net mineral acre and deliver an 80.00% NRI assignment. Simmons would assign only the operating rights from a point 750 feet below the Huerfanito Bentonite Marker to the base of the Mesaverde Formation as per special rules and regulations for the Blanco-Mesaverde Gas Pool. Simmons and McElvain would agree to form two 160 acre non-standard proration units for the Mesaverde formation only, in the N/2 of Section 25. In addition, Simmons would be willing to share logs, from the the Bishop #25-1 well.

It would be to the benefit of both companies to try and settle our differences prior to the OCD Hearing scheduled for September 20th, 2001, and therefore Simmons would certainly be open to any proposals McElvain might suggest.

Simmons will hold this offer open until 5:00 P.M. MST, September 19th, 2001. Should we not hear from you by that time, we will assume this offer to be null and void and that McElvain has no interest in a settlement.

D. J. Simmons, Inc.


A. B. Geren, Jr., President

C: Mr. J. Scott Hall, Esq.
Mr. Steve Shefte