
D.J. SIMMONS, INC.

October 25, 2001

VIA FAX & OVERNIGHT MAIL

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

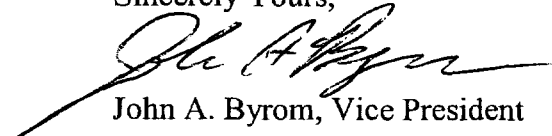
Attn: Mr. Steve Shefte

RE: Offer to Settle Case No. 12635 & 12705
Section 25 Spacing Units,
Township 25 North – Range 3 West, N.M.P.M.
Rio Arriba County, New Mexico

Dear Mr. Shefte,

D. J. Simmons Company Limited Partnership (Simmons) is willing to settle our differences concerning the referenced two cases before the New Mexico Oil Conversation Division as to 320 acre spacing units in Section 25, Township 25 North – Range 3 West, N.M.P.M., Rio Arriba County New Mexico providing McElvain Oil & Gas Properties, Inc. (McElvain) will agree to allow for **two special 160-acre spacing units** in the N/2 of Section 25 as to the interval from the Base of the Pictured Cliff formation to the Base of the Mesaverde formation. McElvain would continue to own and operate the NW/4 and Simmons would continue to own and operate the NE/4, both in Section 25. In addition, Simmons would elect to **farmout** their 100% leasehold interest in the N/2SE/4 of Section 25 for a 1¼% ORRI to payout, back-in for a 5% of 8/8s working interest in the 320 acre, S/2 spacing unit, said spacing unit previously approved by the Oil Conservation Division. This would be in place of our previous election not to participate as indicated on the election page for the Naomi #1 well, signed and dated October 5, 2001. Should this be agreeable to McElvain, please sign, date and return one copy of this letter to Simmons no later than October 31, 2001.

Sincerely Yours,



John A. Byrom, Vice President

ACCEPTED AND AGREED TO BY:

McElvain Oil & Gas Properties, Inc.

By: _____

Date: _____

D.J. Simmons, Inc.

P.O. Box 1469
1009 Ridgeway Place, Suite 200

Farmington, New Mexico 87499
87401

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