

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
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TELEPHONE 303-893-0933 EXT.306
FAX 303-893-0914
CELLULAR 303-809-2058

January 11, 2001

CERTIFIED, RETURN RECEIPT REQUESTED

TO WORKING INTEREST OWNERS

RE: PROPOSAL TO DRILL WELL
Cougar Com 33 #1M
SW of Section 33-T26N-R2W
Rio Arriba County, NM

Gentlemen:

Enclosed herewith is McElvain's Authority for Expenditure dated January 5, 2001 in the amount of \$996,640 represents the estimated cost to drill and complete the well in the Dakota formation.

Previously furnished to you with the Cougar 33 #1 well proposal was an AAPL Model Form 610-1982 Operating Agreement covering the S/2 of Section 33 from the base of the Pictured Cliffs formation down to the base of the Dakota formation (the "Operating Agreement"). This September 1, 1999 Operating Agreement (Our NM-039-000128) covers the Cougar 33 #1M well also.

We respectfully request that you consider this proposal to drill the Cougar Com 33 #1M well and remit a response and election as follows:

Operating Agreement

- If you have previously executed the Operating Agreement, no further action is necessary.
- If you have not previously executed the Operating Agreement, however, we have enclosed herewith for your convenience one complete copy along with an extra set of signature pages. Please execute the complete copy and the extra signature pages, having your signature acknowledged on both and returning the extra signature pages fully executed to this office with your response.

Election Ballot

Please indicate your election regarding participation on the enclosed Election Ballot and execute same fully indicating owner name and date clearly then return fully executed copy to with your response.

WellProposalCOUGARCOM33-1M

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12636 Exhibit No. 3
Submitted by:
McElvain Oil & Gas Properties, Inc.
Hearing Date: April 5, 2001

To Working Interest Owners
Cougar Com 33 #1M Well
January 11, 2001
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Authority for Expenditure

If your election is to participate in the proposed operation, please indicate so on the Election Ballot enclosed herewith and execute both copies of the enclosed Authority for Expenditure, returning one fully executed copy with your response.

We thank you for your consideration to this proposal and look forward to a prompt response to this revised proposal. If you have any questions regarding the enclosed, please feel free to contact the undersigned. Science questions should be directed to Larry Van Ryan (303) 893-0933 ext. 301, and Engineering questions should be directed to John Steuble (303) 893-0933 ext. 302.

Very truly yours,
McELVAIN OIL & GAS PROPERTIES, INC.

^
Mona L. Binion, CPL Land Manager

Encls.

Election Ballot
Cougar Com 33 #1M
January 11, 2001

_____ YES, the undersigned elects to participate in the drilling of the McElvain Cougar Com 33 #1M well located in the SW/4 of Section 33, Township 26 North, Range 2 West, NMPM, to be drilled to a depth sufficient to test the Dakota formation.
(If your election is to participate, please execute the enclosed Authority for Expenditure dated January 5, 2001).

_____ NO, the undersigned elects NOT to participate in the drilling of the McElvain Cougar Com 33 #1M well located in the SW/4 of Section 33, Township 26 North, Range 2 West, NMPM, to be drilled to a depth sufficient to test the Dakota formation.

OWNER NAME: _____

By: _____

Printed Name, Title: _____

Date: _____

Working Interest Owner	WI
T. H. McElvain LTD	41.132813%
Big Snowy Expl. LTD	3.164062%
Pena Blanca Corp.	3.164062%
James Raymond	6.328124%
Joe Elledge	1.265624%
Cougar Capital, LLC	8.226563%
Energen Resources Corporation	11.718750%
Noseco Corporation	8.459293%
Neumann Family Trust	6.698570%
Gavilan Dome Properties	5.409343%
Mesa Grande Resources, Inc.	2.284348%
NM & O Operating Co.	1.757823%
Johansen Energy Partnership	.390625%
	100.000000%

Please execute this Election ballot in the space provided above. If your election is to participate, please execute the enclosed ***Authority for Expenditure*** also. If you have not previously executed the Operating Agreement, please execute the enclosed signature pages. Return all executed pages to McElvain as follows:

- Fax the executed pages to: **Mona Binion (FAX) 303-893-0914**
- Followed by delivery of the originals to:
McElvain Oil & Gas Properties, Inc.
Attn.: Mona Binion
1050 17th Street, Suite 1800
Denver, Colorado 80265-1801

McELVAIN OIL & GAS PROPERTIES, INC.

AUTHORITY for EXPENDITURE

January 5,2001

Cougar Com 33 #1M SW/4 33-26N-2W	DRY HOLE	COMPLETED WELL
Drilling Intangibles		
Staking, Permitting, Title Work & Survey	16,000	16,000
Location, Road, Damages	27,500	27,500
Footage 8400' @ \$22.00/ft	184,800	184,800
Daywork 4.5 days @ \$6800/day	30,600	30,600
Mud Logging	15,000	15,000
Water Hauling	15,000	15,000
Rental Equipment	2,000	2,000
Well Logging	22,000	22,000
Drilling Mud	55,000	55,000
Cement & Services..Surface, Intermediate	8,500	8,500
Cement & Services..Plugging	20,000	
Trucking & Labor	2,500	2,500
Overhead & Supervision	15,000	15,000
Misc Costs	12,000	12,000
Contingency		
Total Drilling	425,900	405,900

Completion Intangibles		
Cement & Services..Production Casing		55,000
Completion Unit 24 days @ \$2,800/day		67,200
Logging & Perforating		26,000
Stimulation		185,000
Tool & Tank Rental		18,000
Supervision 25 days @ \$650/day		16,250
Water		30,000
Trucking		6,500
Roustabouts/Labor 7 days @ \$2000/day		14,000
Specialized Tools		
5% Contingency		20,900
Total Completion	0	438,850

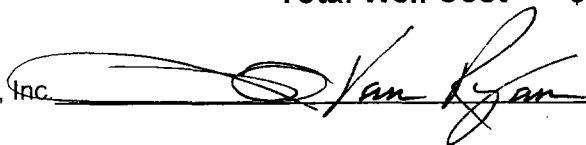
Total Intangibles 425,900 844,750

Tangibles		
Casing..Surface 600' 9 5/8" @ \$13.40/ft.	8,040	8,040
Casing..Production 8400' 5 1/2" @ \$7.00/ft.		58,800
Tubing..8500' 2 3/8" @ \$2.30/ft		19,550
Float Equipment	1,500	8,500
Wellhead	1,500	8,500
Artificial Lift..Plunger		4,500
Tanks & Pits		18,500
Separator		17,500
Line Pipe & Fittings		8,000
Total Tangibles	11,040	151,890

Total Well Cost \$436,940 \$996,640

APPROVALS:

McElvain Oil & Gas Properties, Inc.



Date: 1/5/01

Investor Approval: _____

Date _____

Approved by: _____

Title: _____

Company: _____