

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
e-mail monab@mcelvainoilandgas.com

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

May 7, 2001

TO WORKING INTEREST OWNERS
(See Attached Addressee List)

Re: Cougar Com #32-1 Well Proposal
Township 26 North, Range 2 West
Section 32: NE/4
Rio Arriba County, New Mexico

Gentlemen:

McElvain Oil & Gas Properties, Inc., as sole general partner and Operator in behalf of T. H. McElvain Oil & Gas Limited Partnership ("McElvain") hereby proposes the drilling of a Dakota/Mesaverde test well to be at a legal location in the NE/4 of Section 32, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$1,024,090 which is detailed on the enclosed McElvain Authority for Expenditure. It should be noted that this cost estimate includes the necessary expenditures to attempt a completion of both the Dakota and the Mesaverde formations. Pursuant to McElvain's review of the records reflects the ownership of the N/2 of Section 32 as the dedicated proration unit to be as follows:

✓ T.H. McElvain Oil & Gas Limited Partnership	32.500000%
✓ Cougar Capital LLC	6.500000%
✓ Joe Elledge	1.000000%
✓ Pena Blanca Corporation	2.500000%
✓ Big Snowy Exploration LP	2.500000%
James Raymond	5.000000%
Hooper, Kimball & Williams	12.500000%
Dugan Production Corporation	12.500000%
Petco, Inc.	5.853274%
Ibex Partnership	5.853274%
Carolyn Oatman	.328062%
W. Clark Trust	.305175%
Testamentary Trust u/w/o Warren Clark	.160215%
Mountain States Natural Gas Co.	6.250000%
Samson Resources Company	2.906250%
Ramona Sweet Revocable Trust	1.562500%
Christopher L. Phillips	1.562500%
Duer Wagner, III	.218750%

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12689 Exhibit No. 3
Submitted by:
McElvain Oil & Gas Properties, Inc.
Hearing Date: July 12, 2001

To Working Interest Owners
Cougar Com #32-1 Well
May 7, 2001
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A breakdown of tract ownerships and recap of spacing unit totals is enclosed for your review and information. An Operating Agreement prepared on AAPL Model form 610-1982 to govern operations across the designated spacing unit at depths from the base of the Pictured Cliffs formation to the base of the Dakota formation has been prepared and is also enclosed herewith for your review and execution.

We request that you review all of the enclosed materials relative to this proposal and proceed as follows:

- Indicate your election regarding participation on the enclosed Election Page, execute both copies in the space provided and return one to the undersigned;
- If your election is to participate, also execute both copies of the enclosed Authorization for Expenditure and return one copy to the undersigned along with a summary of your well reporting requirements (blank form is enclosed for your convenience, if needed);
- Execute the enclosed Operating Agreement and extra signature page thereto, returning the extra signature page fully executed to the undersigned

Telefax copies of the executed documents will be accepted at:

McElvain Oil & Gas Properties, Inc.
(303) 893-0914
Attention: Mona L. Binion

provided that original copies are delivered promptly thereafter.

The proposed test well described herein is scheduled in this program to commence mid year 2001 and in light of the circumstances and in order to avoid additional delays which could arise from weather conditions or sensitive surface restrictions, we respectfully request that you review and respond to this proposal at your earliest possible convenience. If you have any questions concerning this proposal, please feel free to contact the undersigned.

Very truly yours,

T. H. McElvain Oil & Gas Limited Partnership
By McElvain Oil & Gas Properties, Inc., sole General Partner

Mona L. Binion, CPL
Land Manager

MLB/idi

Encls.

ELECTION PAGE

Cougar Com #32-1 Well

May 7, 2001

YES, I/We do hereby elect to participate in the drilling of the Cougar Com #32-1 Well as a Dakota / Mesaverde test to be located in the NE/4 of Section 32, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

- *execute and return the Operating Agreement signature page*
- *execute and return the Authority for Expenditure*
- *complete and return the well reporting summary or submit your firm's summary*

NO, I/We do hereby elect NOT to participate in the drilling of the Cougar Com #32-1 Well as a Dakota / Mesaverde test to be located in the NE/4 of Section 32, Township 26 North, Range 2 West, Rio Arriba County, New Mexico.

As an alternative to participation, I/We hereby offer support to McElvain and the participating parties hereunder the following:

(Please select one of the following if your election is NOT to participate)

I/We hereby offer to farmout my/our working interest in the proposed well on mutually acceptable terms to be negotiated among the parties and, therefore, request a proposal of terms from McElvain; OR,

I/We hereby offer to sell my/our interest in the proposed well as an alternative to participation and hereby request a proposal of sale terms from McElvain; OR,

I/We hereby offer to execute a mutually acceptable Operating Agreement which shall reflect an election against my/our working interest as a non-participating, non-drilling party subject to the penalty provisions contained therein.

Telefax executed documents to

Mona Binion

(303) 893-0914

Mail original executed documents to

Mona Binion

McElvain Oil & Gas Properties, Inc.

1050 17th Street, Suite 1800

Denver, CO 80265

WORKING INTEREST OWNERS
Cougar Com #32-1 Well

T.H. McElvain Oil & Gas Ltd Ptshp
1050 17th Street, Suite 1800
Denver, CO 80265

Carolyn Clark Oatman
Drawer 310
Bastrop, TX 78602

Cougar Capital, LLC
200 East Sunset, Suite E
El Paso, Texas 79922

Warren Clark Trust
Box 73
Austin, TX 78767

Joe Elledge
P. O. Box 111
Farmington, NM 87401

Testamentary Trust u/w/o Warren Clark
Box 1846
Austin, TX 78700

James M. Raymond
P. O. Box 291445
Kerville, TX 78029-1445

Mountain States Natural Gas Co.
P. O. Box 12323
Las Vegas, NV 89112

Hooper, Kimball & Williams
5550 South Lewis, Suite 301
Tulsa, OK 74105

Samson Resources Co.
2 West Second Street
Tulsa, OK 74103

Dugan Production Corporation
709 East Murray Drive
Farmington, NM 87499

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

Ibex Partnership
Box 911
Breckenridge, TX 76424-0911

Ramona Sweet Revocable Trust
6 East 5th Street, Suite 200
Tulsa, OK 74103

Petco, Inc.
Box 911
Breckenridge, TX 76424-0911

Duer Wagner III
301 Commerce Street, Suite 2930
Fort Worth, TX 76102

Big Snowy
1050 17th Street, Suite 1800
Denver, CO 80265

Pena Blanca
1050 17th Street, Suite 1800
Denver, CO 80265

Bear #32-1
NE/4 of Section 32
Township 26 North, Range 2 West
N/2 of Section 32

Tract Description	Tract Acres	% of Unit
Tract 1		
W/2NW, SE/NW Section 32	120	37.50%
NM-01804		
120 acres / 320 acres (37.5%)		
Tract 2		
NE/NW Section 32	40	12.50%
NM-01804-A		
40 acres / 320 acres (12.5%)		
Tract 3		
W/NE, SE/NE Section 32	120	37.50%
NM-014773		
120 acres / 320 acres (37.5%)		
Tract 4		
NE/4NE/4 Section 32	40	12.50%
SF-079458-A		
40 acres / 320 acres (12.5%)		
Totals	320	100.00%

Owner	Tract 1		Tract 2		Tract 3		Tract 4		Totals
	WI	Net Tract WI	WI	Net Tract WI	WI	Net Tract WI	WI	Net Tract WI	
T. H. McElvain Oil & Gas LTD					65.000000%	24.375000%	65.000000%	8.125000%	32.500000%
Cougar Capital, LLC					13.000000%	4.875000%	13.000000%	1.625000%	6.500000%
Pena Blanca Corporation					5.000000%	1.875000%	5.000000%	0.625000%	2.500000%
Big Snowy Exploration LP					5.000000%	1.875000%	5.000000%	0.625000%	2.500000%
James Raymond					10.000000%	3.750000%	10.000000%	1.250000%	5.000000%
Joe Elledge					2.000000%	0.750000%	2.000000%	0.250000%	1.000000%
Mountain States Natural Gas Co.			50.000000%	6.250000%					6.250000%
Sanson Resources Company			23.250000%	2.906250%					2.906250%
Ramona Sweet Revocable Trust			12.500000%	1.562500%					1.562500%
Christopher L. Phillips			12.500000%	1.562500%					1.562500%
Dier Wagner, III			1.750000%	0.218750%					0.218750%
Hooper, Kimbal Williams	33.333333%	12.500000%							12.500000%
Dugan Production	33.333334%	12.500000%							12.500000%
Peco, Ltd.	15.60873%	5.853274%							5.853274%
Ibex Pship	15.60873%	5.853274%							5.853274%
Carolyn Oatman	0.87483%	0.328062%							0.328062%
W. Clark Trust	0.81380%	0.305175%							0.305175%
Testamentary Trust	0.42724%	0.160215%							0.160215%
	100.000000%	37.500000%	100.000000%	12.500000%	100.000000%	37.500000%	100.000000%	12.500000%	100.000000%

3.93452

**McELVAIN OIL AND GAS PROPERTIES, INC. AUTHORITY EXPENDITURE
SUMMARY FOR EXPENDITURES
EXPLORATION & DEVELOPMENT**

A/E NUMBER: _____
DATE: 5/8/2001
WELL NAME: Cougar com 32 #1
LOCATION: T26N-R2W SEC. 32. NE/4
COUNTY: RIO ARRIBA COUNTY
STATE: NEW MEXICO
PROPOSED DEPTH: 8400'
PURPOSE OF A/E: Drill Mesaverde/Dakota test well

Intangible Drilling Costs:	\$433,350
Tangible Drilling Costs	\$11,040
SUB TOTAL TO CASING POINT	\$444,390
Plugging and abandonment cost	\$20,000.00
TOTAL DRY HOLE COSTS	\$464,390.00
Intangible Completion Costs:	\$438,850
Tangible Completion Costs:	\$140,850
TOTAL COMPLETION COSTS	\$579,700
TOTAL COMPLETED WELL COSTS:	\$1,024,090
Facilities	
Land, Geological, Geophysical, Prospect	
TOTAL THIS A/E:	\$1,024,090

APPROVALS

COMPANY:	T. H. McElvian Oil & Gas Ltd.	WORKING INTEREST:	32.500000%
BY:	By: McElvian Oil & Gas Properties Inc., General Partner	DATE:	5/8/01
COMPANY:	Cougar Capital LLC	WORKING INTEREST:	6.500000%
		DATE:	
COMPANY:	Joe Elledge	WORKING INTEREST:	1.000000%
		DATE:	
COMPANY:	Pera Blanca Corporation	WORKING INTEREST:	2.500000%
BY:	By: [Signature]	DATE:	5/8/01
COMPANY:	Big Showy Exploration	WORKING INTEREST:	2.500000%
BY:	By: [Signature]	DATE:	5/8/01
COMPANY:	James Raymaond	WORKING INTEREST:	5.000000%
		DATE:	
COMPANY:	Hooper, Kimball & Williams	WORKING INTEREST:	12.500000%
		DATE:	
COMPANY:	Dugan Production Corporation	WORKING INTEREST:	12.500000%
		DATE:	
COMPANY:	Petco, Inc.	WORKING INTEREST:	5.853274%
		DATE:	
COMPANY:	Ibex Patnership	WORKING INTEREST:	5.853274%
		DATE:	
COMPANY:	Carolyn Oatman	WORKING INTEREST:	0.328062%
		DATE:	
COMPANY:	W. Clark Trust	WORKING INTEREST:	0.305175%
		DATE:	
COMPANY:	Testamentary Trust	WORKING INTEREST:	0.160215%
	u/w/o Warren Clark	DATE:	
COMPANY:	Mountain States Natural Gas Co.	WORKING INTEREST:	6.250000%
		DATE:	
COMPANY:	Samson Resources Company	WORKING INTEREST:	2.906250%
		DATE:	
COMPANY:	Ramona Sweet Revocable Trust	WORKING INTEREST:	1.562500%
		DATE:	
COMPANY:	Christopher L. Phillips	WORKING INTEREST:	1.562500%
		DATE:	
COMPANY:	Duer Wagner, III	WORKING INTEREST:	0.218750%
		DATE:	
			1.00000000

McElvain OIL & GAS PROPERTIES, INC.

AUTHORITY for EXPENDITURE

April 17, 2001

Cougar Com 32 #1 Mv/Dk NE/4 32-26N-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' @ \$25.00/ft	210,000	210,000
Daywork 4.5 days @ \$7300/day	32,850	32,850
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	453,350	433,350

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 453,350 872,200

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 \$464,390 \$1,024,090

APPROVALS:

McElvain Oil & Gas Properties, Inc.  Date: 4/17/01