

**T. H. McElvain Oil & Gas Limited Partnership**  
**McElvain Oil & Gas Properties, Inc., sole General Partner**  
1050 17<sup>TH</sup> STREET, SUITE 1800  
DENVER, COLORADO 80265

MONA L. BINION, CPL  
EXT.306 LAND MANAGER  
e-mail [monab@mcelvainoilandgas.com](mailto:monab@mcelvainoilandgas.com)

TELEPHONE 303-893-0933  
FAX 303-893-0914  
Cellular 303-809-2058

April 2, 2001

TO WORKING INTEREST OWNERS  
(See Attached Addressee List)

Re: Badger Com #11-1 Well Proposal  
Township 25 North, Range 2 West  
Section 11: SW/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 8,400 dual Mesaverde / Dakota test well to be at a legal location in the SW/4 of Section 11, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$996,640 which is detailed on the enclosed McElvain Authority for Expenditure. Pursuant to McElvain's review of the records reflects the ownership of the W/2 of Section 11 as the dedicated proration unit to be as follows:

T.H. McElvain Oil & GAS Limited Partnership	25.000000%
Michael A. Gold, et ux	25.000000%
3TEC Energy Corporation	42.500000%
Lewis C. Beach	4.166665%
Helmerich & Payne, Inc.	2.500000%
Petroleum International, Inc.	.833335%

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 (W/2 of Section 5) at depths from the base of the Pictured Cliffs formation to the base of the Mesaverde formation has been prepared and is also enclosed herewith for your review and execution.

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12690 Exhibit No. 3  
Submitted by:  
McElvain Oil & Gas Properties, Inc.  
Hearing Date: July 12, 2001

To Working Interest Owners  
Badger #11-1 Well  
April 2, 2001  
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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.

McElvain is an active operator in this currently drilling and completing new wells and re-entering re-completing existing wells as an effort to explore and develop the Mesaverde formation. At this point we have under contract rig(s) and equipment which are adequate to perform the proposed operation, however, this equipment must be kept active in order to maintain contract rights for their use. 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.

## WORKING INTEREST OWNERS

Badger #11-1 Well

*T.H. McElvain Oil & Gas Limited Partnership*

1050 17<sup>th</sup> Street, Suite 1800  
Denver, CO 80265

*3TEC Energy Corporation*

777 Walker Street, Suite 2400  
Houston, TX 77002

*Helmerich & Payne, Inc.*

1579 East 24<sup>th</sup> St  
Tulsa, OK 74114

*Lewis C. Beach*

2530 East 71<sup>st</sup> Street, Suite H  
Tulsa, OK 74170

*Petroleum International, Inc.*

1840 East 15<sup>th</sup> Street  
Tulsa, OK 74104

*Michael A. Gold, et ux*

3269 N. Knoll Drive  
Los Angeles, CA 90068

## ELECTION PAGE

Badger #11-1 Well  
March 29, 2001

\_\_\_\_\_  
YES, I/We do hereby elect to participate in the drilling of the Badger Com #11-1 Well as a dual Mesaverde / Dakota test to be located in the SW/4 of Section 11, Township 25 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 Badger Com #11-1 Well as a dual Mesaverde / Dakota test to be located in the SW/4 of Section 11, Township 25 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 17<sup>th</sup> Street, Suite 1800  
Denver, CO 80265

# Badger #11-1

Spacing Unit = W/2 Section 11, T25N-R2W

Tract No. / Description / Lease	Tract Acres	% of Spacing Unit
<b>Tract I</b>		
NW/NW, SE/NW	80	25.00%
Fee		
<b>Tract II</b>	80	25.00%
NE/NW, SW/NW		
Fee		
<b>Tract III</b>	160	50.00%
SW		
Fee		
<b>Totals</b>	<b>320</b>	<b>100.00%</b>

Working Interest Owner	Tract I		Tract II		Tract III		Total
	WI	TPF WI	WI	TPF WI	WI	TPF WI	
T. H. McElvain LTD			100%	25.000000%			25.0000000%
Michael A. Gold, et ux	100%	25.000000%					25.0000000%
3TEC Energy Corporation					85.000000%	42.500000%	42.5000000%
Lewis C. Beach					8.333333%	4.16667%	4.166665%
Helmerich & Payne, Inc.					5.000000%	2.500000%	2.5000000%
Petroleum International, Inc.					1.66667%	0.83334%	0.833335%
	100.000000%	25.000000%	100.000000%	25.000000%	100.000000%	50.000000%	100.0000000%

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

<b>A/E NUMBER:</b>	
<b>DATE:</b>	4/2/2001
<b>WELL NAME:</b>	Badger Corn 11 #1
<b>LOCATION:</b>	T25N-R2W SEC. 11 SW/4
<b>COUNTY:</b>	RIO ARriba COUNTY
<b>STATE:</b>	NEW MEXICO
<b>PROPOSED DEPTH:</b>	8400'
<b>PURPOSE OF A/E:</b>	Drill dual Mesaverde/Dakota test well

Intangible Drilling Costs:	\$405,900	
Tangible Drilling Costs	\$11,040	
<b>SUB TOTAL TO CASING POINT</b>		<b>\$416,940</b>
Plugging and abandonment cost	\$20,000.00	
<b>TOTAL DRY HOLE COSTS</b>	<b>\$436,940.00</b>	
Intangible Completion Costs:	\$438,850	
Tangible Completion Costs:	\$140,850	
<b>TOTAL COMPLETION COSTS:</b>		<b>\$579,700</b>
<b>TOTAL COMPLETED WELL COSTS:</b>		<b>\$996,640</b>
Facilities		
Land, Geological, Geophysical, Prospect		
<b>TOTAL THIS A/E:</b>		<b>\$996,640</b>

**APPROVALS**

<b>COMPANY:</b>	T. H. McElvian Oil & Gas Ltd.	<b>WORKING INTEREST:</b>	25.000000%
<b>BY:</b>	By: McElvian Oil & Gas Properties Inc., General Partner	<b>DATE:</b>	
<b>COMPANY:</b>	Michael A. Gold, et ux	<b>WORKING INTEREST:</b>	25.000000%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	3TEC Energy Corporation	<b>WORKING INTEREST:</b>	42.500000%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Lewis C. Beach	<b>WORKING INTEREST:</b>	4.166665%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Helmerich & Payne, Inc.	<b>WORKING INTEREST:</b>	2.500000%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Petroleum International, Inc.	<b>WORKING INTEREST:</b>	0.833335%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
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<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
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<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
<b>BY:</b>		<b>DATE:</b>	

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**M IN OIL & GAS PROPERTIES, INC.**  
**AUTHORITY for EXPENDITURE**  
 April 2,2001

Badger Com 11 #1 SW/4 11-25N-2W	DRY HOLE	COMPLETED WELL
<b>Drilling Intangibles</b>		
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		
<b>Total Drilling</b>	<b>425,900</b>	<b>405,900</b>

<b>Completion Intangibles</b>		
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
<b>Total Completion</b>	<b>0</b>	<b>438,850</b>

**Total Intangibles      425,900      844,750**

<b>Tangibles</b>		
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
<b>Total Tangibles</b>	<b>11,040</b>	<b>151,890</b>

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

APPROVALS:

McElvain Oil & Gas Properties, Inc.

Date:

*[Signature]*      4-2-01