

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

April 30, 2001

TO WORKING INTEREST OWNERS
(See Attached Addressee List)

Re: Cougar Com #32-2 Well Proposal
Township 26 North, Range 2 West
Section 32: SE/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 SE/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 \$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 S/2 of Section 32 as the dedicated proration unit to be as follows:

T.H. McElvain Oil & Gas Limited Partnership	34.213877% (*)
T.H. McElvain Oil & Gas Limited Partnership / Noseco Corporation	12.688938% (**)
T.H. McElvain Oil & Gas Limited Partnership / Neumann Family Trust	10.047855% (**)
Cougar Capital LLC	6.842776%
James Raymond	5.263674%
Pena Blanca Corp.	2.631836%
Big Snowy Exploration Ltd	2.631836%
Joe Elledge	1.052735%
Mesa Grande Resources, Inc.	3.426522%
Gavilan Dome Properties	8.114013%
Johansen Energy Partnership	.585938%
Dugan Production Corporation	12.500000%
Williams Production Company	0.000000% (***)

(*)Interests shown includes direct leasehold of party plus proportionate share of 2.636734% interest of NM&O Operating Company assumed under individual farmout arrangement to McElvain, et al.

(**)Interest shown subject to title dispute affecting proposed operation which is pending resolution under case filed in District Court of Rio Arriba County, New Mexico.

(***)Uncertainty as to status of entitlement to reversionary rights in favor of Williams Production Company reflected in title chain to one of the subject leases.

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12691 Exhibit No. 3
Submitted by:
McElvain Oil & Gas Properties, Inc.
Hearing Date: July 12, 2001

To Working Interest Owners
Cougar Com #32-2 Well
April 30, 2001
Page 2

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.

WORKING INTEREST OWNERS
Cougar Com #32-2 Well

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

Gavilan Dome Properties
1800 Cedarwood Drive
Moraga, CA 94556

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

Johansen Energy Partnership
P. O. Box 1773
Witefish, MT 59937

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

Dugan Production Corporation
709 East Murray Drive
Farmington, NM 87499

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

Noseco Corporation
7400 Lakeside Drive
Reno, Nevada 89511

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

Peter C. Neumann, Trustee
Neumann Family Trust
One Elm Court Street
Reno, Nevada 89501

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

Williams Production Company
P. O. Box 3102
Tulsa, OK 74101

Mesa Grande Resources, Inc.
1318 Philtower Bldg
Tulsa, OK 74103

ELECTION PAGE

Cougar Com #32-2 Well

April 30, 2001

YES, I/We do hereby elect to participate in the drilling of the Cougar Com #32-2 Well as a Dakota / Mesaverde test to be located in the SE/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 #32-2 Well as a Dakota / Mesaverde test to be located in the SE/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

Cougar #32-2
SE/4 of Section 32
Township 26 North, Range 2 West
S/2 of Section 32

Tract 1

SW Section 32
 NM-97827
 160 acres / 320 acres (50%)

Tract 2

SE Section 32
 NM-01806
 160 acres / 320 acres (50%)

Owner	Interest Source	Tract 1		Tract 2		Totals	
		WI	TPF WI	WI	TPF WI	Interest	Company
T. H. McElvain Oil & Gas Limited P'tshp	Direct	65.000000%	32.5000000%			32.500000%	
	(NM&O Farmout)			3.427754%	1.713877%	1.713877%	34.213877%
T. H. McElvain Oil & Gas / Noseco Corp.	Direct			25.377878%	12.688938%	12.688938%	12.688938%
T. H. McElvain Oil & Gas / Neumann Family Tr.	Direct			20.095710%	10.047855%	10.047855%	10.047855%
Cougar Capital, LLC	Direct	13.000000%	6.5000000%			6.5000000%	
	(NM&O Farmout)			0.685551%	0.342776%	0.342776%	6.842776%
James Raymond	Direct	10.000000%	5.0000000%			5.0000000%	
	(NM&O Farmout)			0.527347%	0.263674%	0.263674%	5.263674%
Pena Blanca	Direct	5.000000%	2.5000000%			2.5000000%	
	(NM&O Farmout)			0.263673%	0.131836%	0.131836%	2.631836%
Big Snowy Exp	Direct	5.000000%	2.5000000%			2.5000000%	
	(NM&O Farmout)			0.263673%	0.131836%	0.131836%	2.631836%
Joe Elledge	Direct	2.000000%	1.0000000%			1.0000000%	
	(NM&O Farmout)			0.105469%	0.052735%	0.052735%	1.052735%
Gavilan Dome	Direct			16.228027%	8.114013%	8.114013%	8.114013%
Mesa Grande Resources, Inc.	Direct			6.853043%	3.426522%	3.426522%	3.426522%
Johansen Energy	Direct			1.171875%	0.585938%	0.585938%	0.585938%
Dugan Production	Direct			25.000000%	12.5000000%	12.5000000%	12.5000000%
Totals		100.0000000%	50.0000000%	100.000000%	50.0000000%	100.0000000%	100.0000000%

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

A/E NUMBER:	
DATE:	4/19/2001
WELL NAME:	Cougar Com #32-2
LOCATION:	T26N-R2W SEC. 32 SE/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:	34.213877%
BY:	By: McElvian Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	DATE:	5/2/01
COMPANY:	Noseco Corporation	WORKING INTEREST:	12.688938%
BY:		DATE:	
COMPANY:	or T. H. McElvian Oil & Gas Ltd. by Farmout By: McElvian Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	DATE:	5/2/01
COMPANY:	Neumann Family Trust	WORKING INTEREST:	10.047855%
BY:		DATE:	
COMPANY:	or T. H. McElvian Oil & Gas Ltd. by Farmout By: McElvian Oil & Gas Properties Inc., General Partner <i>[Signature]</i>	DATE:	5/2/01
COMPANY:	Pena Blanca Corp.	WORKING INTEREST:	2.631836%
BY:		DATE:	
COMPANY:	Cougar Capital LLC	WORKING INTEREST:	6.842776%
BY:		DATE:	
COMPANY:	James Raymond	WORKING INTEREST:	5.263674%
BY:		DATE:	
COMPANY:	Big Snowy Exploration Ltd.	WORKING INTEREST:	2.631836%
BY:		DATE:	
COMPANY:	Joe Elledge	WORKING INTEREST:	1.052735%
BY:		DATE:	
COMPANY:	Mesa Grande Resources, Inc.	WORKING INTEREST:	3.426522%
BY:		DATE:	
COMPANY:	Gavilan Dome Properties	WORKING INTEREST:	8.114013%
BY:		DATE:	
COMPANY:	Johansen Energy Partnership	WORKING INTEREST:	0.585938%
BY:		DATE:	
COMPANY:	Dugan Production Corporation	WORKING INTEREST:	12.500000%
BY:		DATE:	

100.0000000%

M. LVAIN OIL & GAS PROPERTIES, C.
AUTHORITY for EXPENDITURE
April 17, 2001

Cougar Com 32 #2 Mv/Dk SE/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

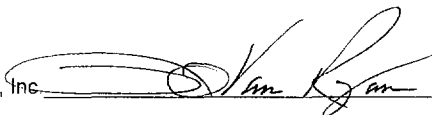
Total Intangibles 453,350 872,200

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