

**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  
LAND MANAGER  
e-mail [monab@mcelvainoilandgas.com](mailto:monab@mcelvainoilandgas.com)

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

April 12, 2001

TO WORKING INTEREST OWNERS  
(See Attached Addressee List)

Re: Cougar Com #5-2 Well Proposal  
Township 25 North, Range 2 West  
Section 5: 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 6,200' Mesaverde test well to be at a legal location in the SE/4 of Section 5, Township 25 North, Range 2 West, Rio Arriba County, New Mexico.

The estimated cost to drill and complete the well, as proposed, is \$807,335 which is detailed on the enclosed McElvain Authority for Expenditure dated March 8, 2001. Pursuant to McElvain's review of the records reflects the ownership of the E/2 of Section 5 (Lots 1, 2, S/2NE/4, SE/4) as the dedicated proration unit to be as follows:

T.H. McElvain Oil & GAS Limited Partnership	36.201120% (*)
Mesa Grande Resources, Inc.	22.226185%
Mesa Grande Ltd.	11.865500%
Gavilan Dome Properties	4.690313%
Arriba Company Ltd.	0.624500%
Hooper, Kimball & Williams	8.329999%
Cherokee Operating Co.	7.634567%
Ibex Partnership	3.900622%
Petco Limited	3.900622%
Carolyn Clark Oatman	0.218620%
Warren Clark Trust	0.203369%
Testamentary Trust u/w/o Warren Clark	0.106767%
Premier Operating Co.	0.097816%

(\*)Pending title transfer to T. H. McElvain Oil & Gas Limited Partnership pursuant to individual arrangements with Noseco Corporation 2.691656%, Neumann Family Trust 4.69125%, and NM&O Operating Company 16.312593%.

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

BEFORE THE OIL CONSERVATION DIVISION  
SANTA FE, NEW MEXICO  
Case No. 12693 Exhibit No. 3

Submitted by:  
McElvain Oil & Gas Properties, Inc.  
Hearing Date: September 20, 2001

To Working Interest Owners  
Cougar Com #5-2 Well  
April 12, 2001  
Page 2

across the designated spacing unit (E/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.

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:

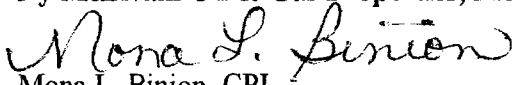
**McElvain Oil & Gas Properties, Inc.**  
**(303) 893-0914**  
**Attention: Mona L. Binion**

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

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

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

Mesa Grande Ltd.  
6 E 5<sup>th</sup> #2000  
Tulsa, OK 74103

Gavilan Dome Properties  
1800 Cedarwood Drive  
Moraga, CA 94556

Arriba Company Ltd.  
P.O. Box 35304  
Tulsa, OK

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

Cherokee Operating Co.  
1888 Century Park #370  
Los Angeles, CA 90067

Ibex Partnership  
Box 911  
Breckenridge, TX 76424-0911

Petco Limited  
Box 911  
Breckenridge, TX 76424-0911

Carolyn Clark Oatman  
Drawer 310  
Bastrop, TX 78602

Warren Clark Trust  
Box 73  
Austin, TX 78767

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

Premier Operating Co.  
POB 35984  
Tulsa,, OK 74153-0984

## ELECTION PAGE

Cougar Com #5-2 Well

March 29, 2001

\_\_\_\_\_  
YES, I/We do hereby elect to participate in the drilling of the Cougar Com #5-2 Well as a Mesaverde test to be located in the SE/4of Section 5, 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 Cougar Com #5-2 Well as a Mesaverde test to be located in the SE/4of Section 5, 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 and 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

**Cougar Cor #5-2 Well**  
**Working / Net Revenue Estimates**  
**E/2 Section 5, T25N-R2W**  
**From Base of Pictured Cliffs to Base of Mesaverde**

**Tract 1** 160.20

Lots 1, 2, S/2NE/4 Section 5  
 NM-1806  
 160.20 acres  
**Below base of PC to 150' below base of DK**

**Tract 2** 80.00

N/2SE/4 Section 5  
 NM 01804  
 80 acres  
**Below base of PC**

**Tract 3** 40.00

SE/4SE/4 Section 5  
 NM 43749  
 40 acres  
**Below base of PC to 150' below base of DK**

**Tract 4** 40.00

SW/4SE/4 Section 5  
 NM 86892  
 40 acres  
**All Depths**

320.20

Owner	Tract 1			Tract 2			Tract 3			Tract 4			Drillsite Total
	50.03%			24.99%			12.49%			12.49%			
	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI	TPF WI	WI		
T.H.McElvain LTD (NM&O Operating)	6.445275%	3.224571%	2.391430%	0.597618%					100.0000%	12.490000%		16.312189%	
T.H.McElvain LTD (Noseco Corporation)	5.379008%	2.691118%										2.691118%	
T.H.McElvain LTD (Neumann Trust)	34.375000%	17.197813%										17.197813%	
Mesa Grande Resources	44.425717%	22.226185%										22.226185%	
Gavilan Dome Properties	9.375000%	4.690313%					95.000%	11.865500%				4.690313%	
Mesa Grande LTD							5.000%	0.624500%				11.865500%	
Arriba Company, Ltd												0.624500%	
Hooper, Kimball & Williams			33.333330%	8.329999%								8.329999%	
Cherokee Operating (NM&O??)			30.550490%	7.634567%								7.634567%	
Ibex Partnership			15.608730%	3.900622%								3.900622%	
Petco Limited			15.608730%	3.900622%								3.900622%	
Carolyn Clark Oatman			0.874830%	0.218620%								0.218620%	
Warren Clark Trust			0.813800%	0.203369%								0.203369%	
Testamentary Trust u/w/o Warren Clark			0.427240%	0.106767%								0.106767%	
Premier Operating Co.			0.391420%	0.097816%								0.097816%	
Totals	100.000000%	50.030000%	100.000000%	24.990000%	100.000000%	12.490000%	100.000000%	12.490000%	100.000000%	12.490000%	100.000000%	100.000000%	

## **ELECTION PAGE**

**Cougar Com #5-2 Well**

**March 29, 2001**

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### **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**

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

<b>AFE NUMBER:</b>	
<b>DATE:</b>	4/12/2001
<b>WELL NAME:</b>	Cougar Com 5 #2
<b>LOCATION:</b>	T25N-R2W SEC. 5 SE/4
<b>COUNTY</b>	RIO ARriba COUNTY
<b>STATE</b>	NEW MEXICO
<b>PROPOSED DEPTH:</b>	6200'
<b>PURPOSE OF AFE:</b>	Drill Mesaverde test well

Intangible Drilling Costs:	\$310,150	
Tangible Drilling Costs	\$38,430	
<b>SUB TOTAL TO CASING POINT</b>		<b>\$348,580</b>
Plugging and abandonment cost	\$10,000.00	
<b>TOTAL DRY HOLE COSTS</b>	<b>\$358,580.00</b>	
Intangible Completion Costs:	\$364,350	
Tangible Completion Costs:	\$94,405	
<b>TOTAL COMPLETION COSTS:</b>		<b>\$458,755</b>
<b>TOTAL COMPLETED WELL COSTS:</b>		<b>\$807,335</b>
Facilities		
Land, Geological, Geophysical, Prospect		
<b>TOTAL THIS AFE:</b>		<b>\$807,335</b>

**APPROVALS**

<b>COMPANY:</b>	T. H. McElvian Oil & Gas Ltd.	<b>WORKING INTEREST:</b>	36.201120%
<b>BY:</b>	By: McElvian Oil & Gas Properties Inc., General Partner	<b>DATE:</b>	
<b>COMPANY:</b>	Mesa Grande Resources	<b>WORKING INTEREST:</b>	22.226185%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Gavilan Dome Peoperties	<b>WORKING INTEREST:</b>	4.690313%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Mesa Grande LTD	<b>WORKING INTEREST:</b>	11.865500%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Arriba Company Ltd.	<b>WORKING INTEREST:</b>	0.624500%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Hooper, Kimball & Williams	<b>WORKING INTEREST:</b>	8.329999%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Cherokee Operating Co.	<b>WORKING INTEREST:</b>	7.634567%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Ibex Partmentship	<b>WORKING INTEREST:</b>	3.900622%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Petco Limited	<b>WORKING INTEREST:</b>	3.900622%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Carolyn Clark Oatman	<b>WORKING INTEREST:</b>	0.218620%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Warren Clark Trust	<b>WORKING INTEREST:</b>	0.203369%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Testamentry Trust u/w/o Warren Clark	<b>WORKING INTEREST:</b>	0.106767%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>	Premier Operating Co.	<b>WORKING INTEREST:</b>	0.097816%
<b>BY:</b>		<b>DATE:</b>	
<b>COMPANY:</b>		<b>WORKING INTEREST:</b>	
<b>BY:</b>		<b>DATE:</b>	

100.0000000%

**McELVAIN OIL & GAS PROPERTIES, INC.**

**AUTHORITY for EXPENDITURE**

March 8, 2001

Cougar Com 5 #2 SE/4 Sec. 5 T25N R2W	DRY HOLE	COMPLETED WELL
<b>Drilling Intangibles</b>		
Title Work & Survey	3,500	3,500
Location, Road, Damages	30,000	30,000
Footage 6200' @ \$23.00/ft	142,600	142,600
Daywork 2.5 days @ \$8500/day	21,250	21,250
Air Compressors 5 days @ \$3200/day	16,000	16,000
Water Hauling	7,500	7,500
Rental Equipment	1,800	1,800
Well Logging	20,000	20,000
Drilling Mud	5,500	5,500
Cement & Services..Surface, Intermediate	25,000	25,000
Cement & Services..Plugging	10,000	
Trucking & Labor	10,000	10,000
Overhead & Supervision	15,000	15,000
Misc Costs	12,000	12,000
Contingency		
<b>Total Drilling</b>	<b>320,150</b>	<b>310,150</b>

<b>Completion Intangibles</b>		
Cement & Services..Production Casing		12,500
Completion Unit 20 days @ \$2,500/day		50,000
Logging & Perforating		15,000
Stimulation		180,000
Tool & Tank Rental		27,000
Supervision 20 days @ \$650/day		13,000
Water		25,000
Trucking		6,000
Roustabouts/Labor 7 days @ \$2000/day		14,000
Specialized Tools		4,500
5% Contingency		17,350
<b>Total Completion</b>	<b>0</b>	<b>364,350</b>

**Total Intangibles      320,150      674,500**

<b>Tangibles</b>		
Casing..Surface 600' 9 5/8" @ \$12.80/ft.	7,680	7,680
Casing..Production 3750' 7" @ \$7.40/ft.	27,750	27,750
Casing..Liner 2450' 4 1/2" @ 3.70/ft		9,065
Liner Hanger		9,500
Float Equipment	1,500	2,500
Tubing..6200' 2 3/8" @ \$2.20/ft		13,640
Wellhead	1,500	8,500
Artificial Lift		6,500
Tanks & Pits		22,200
Separator		17,500
Line Pipe & Fittings		8,000
<b>Total Tangibles</b>	<b>38,430</b>	<b>132,835</b>

**Total Well Cost      \$358,580      \$807,335**

APPROVALS:

McElvain Oil & Gas Properties, Inc.



Date: 3/9/01