

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

AUG - 2 1999

July 29, 1999

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Harvey E. Yates Company
P. O. Box 1933
Roswell, New Mexico 88202-1933

ATTN: Vernon Dyer

Re: Sagebrush "24" Federal Com. #1 Well
T-19-S, R-33-E, Section 24: E/2
660' FNL and 990' FEL
NMOCD Order No. R-11227
Lea County, New Mexico

Stegner
Case 12206
MS

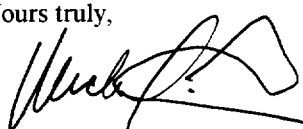
Gentlemen:

The State of New Mexico Energy Minerals and Natural Resources Department, Oil Conservation Division has issued Order No. R-11227 for the pooling of uncommitted "non-consenting working interest owners" who elect not to participate in the captioned well to be operated by Nearburg Producing Company. As provided by the Order, we are enclosing our Authority for Expenditure setting forth an itemized schedule of our estimated well costs. Under the terms of the Order, you have thirty (30) days from receipt of the enclosed AFE to pay your share of estimated well costs to the Operator and participate in the drilling of our proposed well.

If you desire to participate in our well, please signify your election to participate by executing and returning one (1) copy of the enclosed Authority for Expenditure along with your payment of \$373,770.60 representing your proportionate 32.00% of the costs of the proposed well within the thirty day period provided for in the Order.

If you have any questions, please call me.

Yours truly,


Michael M. Gray
Senior Landman

MMG/dw
encl.

xc w/encl. to : State of New Mexico Energy Minerals and Natural Resources Dept.
Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505

Nearburg Producing Company

Exploration and Production

Dallas, Texas

Page 1 of 2

AUTHORITY FOR EXPENDITURE

LEASE: Sagebrush 24 Federal Com. WELL NUMBER: 1 PROPOSED TOTAL DEPTH: 13,600'
 LOCATION: 660' FNL & 990' FEL Section 24, T19S, R33E, Lea County, New Mexico
 FIELD: Wildcat Morrow PROSPECT: Sagebrush EXPLORATORY, DEVELOPMENT: E
 DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer.

DATE PREPARED: 4/15/99 EST. SPUD DATE: 6/15/99 EST. COMPLETION DATE: 8/1/99
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 13,600 Ft @ 20.00 \$/Ft	1514.101	272,000	1515.101		272,000
Drilling Daywork D/C\$/day 3 2 5200	1514.105	15,600	1515.105	10,400	26,000
Drilling Turnkey	1514.110		1515.110		0
Rig Mobilization and Demobilization	1514.115		1515.115		0
Road & Location Expense	1514.120	28,500	1515.120	2,000	30,500
Damages	1514.125	5,000	1515.125		5,000
Directional Drilling - Tools and Service	1514.130		1515.130		0
Drilling Fluids	1514.135	47,500	1515.135		47,500
Fuel, Power, and Water	1514.140	21,200	1515.140	2,000	23,200
Supplies - Bits	1514.145		1515.145	750	750
Supplies - Casing Equipment	1514.150	6,000	1515.150	7,000	13,000
Supplies - Liner Equipment	1514.155		1515.155		0
Supplies - Miscellaneous	1514.160	500	1515.160	750	1,250
Cement and Cmt. Services - Surface Csg	1514.165	4,250	NA		4,250
Cement and Cmt. Services - Int. Csg	1514.170	15,900	NA		15,900
Cement and Cmt. Services - Prod. Csg	NA		1515.170	20,000	20,000
Cement and Cmt. Services - Other	1514.175		1515.175		0
Rental - Drilling Tools and Equipment	1514.180		1515.180		0
Rental - Miscellaneous	1514.185	23,000	1515.185	3,000	26,000
Testing - Drill Stem / Production	1514.190	13,000	1515.190	2,500	15,500
Open Hole Logging	1514.200	45,000	NA		45,000
Mudlogging Services	1514.210	18,550	NA		18,550
Special Services	1514.220		1515.220		0
Plug and Abandon	1514.215	15,000	1515.215	(15,000)	0
Pulling and/or Swabbing Unit	NA		1515.217	13,800	13,800
Reverse Equipment	NA		1515.218	5,800	5,800
Wireline Services	1514.230		1515.230	18,000	18,000
Stimulation	NA		1515.231	12,000	12,000
Pump / Vacuum Truck Services	1514.235		1515.235	6,500	6,500
Transportation	1514.240	1,600	1515.240	2,500	4,100
Tubular Goods - Inspection & Testing	1514.250		1515.250	5,000	5,000
Unclassified	1514.245		1515.245		0
Telephone and Radio Expense	1514.260	1,600	1515.260	400	2,000
Engineer / Geologist / Landman	1514.265	22,500	1515.265	2,500	25,000
Company Labor - Field Supervision	1514.270	22,500	1515.270	6,000	28,500
Contract Labor / Roustabout	1514.275	2,000	1515.275	8,000	10,000
Legal and Professional Service	1514.280	10,000	1515.280	2,000	12,000
Insurance	1514.285	20,110	1515.285		20,110
Overhead	1514.290	10,500	1515.290	2,000	12,500
SUBTOTAL		621,810		117,900	739,710
Contingencies (10%)		62,181		11,790	73,971
ESTIMATED TOTAL INTANGIBLES		683,991		129,690	813,681

Nearburg Producing Company

Page 2 of 2

Exploration and Production

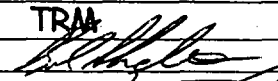

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Sagebrush 24 Federal Com. WELL NUMBER: 1 PROPOSED TOTAL DEPTH: 13,600'
LOCATION: 660' FNL & 990' FEL Section 24, T19S, R33E, Lea County, New Mexico
FIELD: Wildcat Morrow PROSPECT: Sagebrush EXPLORATORY/DEVELOPMENT: E
DESCRIPTION OF WORK: Drill and complete as a flowing Morrow gas producer.

DATE PREPARED: 4/15/99 EST. SPUD DATE: 6/15/99 EST. COMPLETION DATE: 8/1/99
ACCOUNTING WELL NUMBER:
COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing	1520 305		NA		0
Surface Csg 400 Ft @ 24.00 \$/Ft	1520 310	9,600	NA		9,600
Intermediate Csg 5,200 Ft @ 14.00 \$/Ft	1520 315	72,800	NA		72,800
Protection Csg Ft @ \$/Ft	1520 320	0	NA		0
Production Csg 13,600 Ft @ 10.00 \$/Ft	NA		1522 325	136,000	136,000
Protection Liner Ft @ \$/Ft	1520 330	0	NA		0
Production Liner Ft @ \$/Ft	NA		1522 335	0	0
Tubing 13,400 Ft @ 3.38 \$/Ft	NA		1522 340	45,292	45,292
Rods Ft @ \$/Ft	NA		1522 345	0	0
Artificial Lift Equipment	NA		1522 350		0
Tank Battery	NA		1522 355	15,000	15,000
Separators/Heater Treater/Gas Units/FWKO	NA		1522 360	12,000	12,000
Well Head Equipment & Christmas Tree	1520 365	5,000	1522 365	12,000	17,000
Subsurface Well Equipment	NA		1522 370	6,500	6,500
Flow Lines 1/2 mile buried @ 6.50/ft	NA		1522 375	17,160	17,160
Saltwater Disposal Pump	NA		1522 380		0
Gas Meter	NA		1522 385	3,000	3,000
Lact Unit	NA		1522 390		0
Vapor Recovery Unit	NA		1522 395		0
Other Well Equipment	NA		1522 400	2,500	2,500
ROW and Damages	NA		1522 405	2,500	2,500
Surface Equipment Installation Costs	NA		1522 410	15,000	15,000
Elect. Installation	NA		1522 415		0
ESTIMATED TOTAL TANGIBLES		87,400		266,952	354,352
ESTIMATED TOTAL WELL COSTS		771,391		396,642	1,168,033

NPC APPROVAL	DATE
PREPARED BY: H. R. Willis	4/15/99
APPROVED BY: TRA	
APPROVED BY: 	5/3/99
APPROVED BY: 	5/4/99

WI APPROVAL: COMPANY Harvey E. Yates Company 32.00%
BY _____
TITLE _____
DATE _____