

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

July 29, 1999

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

James H. Yates, Inc.
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

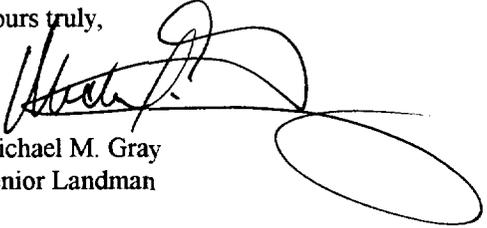
Gentlemen:

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 \$18,688.53 representing your proportionate 1.60% 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.

Nearburg Producing Company

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:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 13,600 Ft @ 20.00 \$/Ft	1514 101	272,000	NA		272,000
Drilling Daywork D/C\$/day 3 2 5200	1514 105	15,600	1514 105	10,400	26,000
Drilling Turnkey	1514 107		1514 107		0
Rig Mobilization and Demobilization	1514 113		1514 113		0
Road & Location Expense	1514 120	28,500	1514 120	2,000	30,500
Damages	1514 125	5,000	1514 125		5,000
Directional Drilling - Tools and Service	1514 130		1514 130		0
Drilling Fluids	1514 135	47,500	1514 135		47,500
Fuel, Power, and Water	1514 140	21,200	1514 140	2,000	23,200
Supplies - Bits	1514 145		1514 145	750	750
Supplies - Casing Equipment	1514 150	6,000	1514 150	7,000	13,000
Supplies - Liner Equipment	1514 155		1514 155		0
Supplies - Miscellaneous	1514 160	500	1514 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		1514 170	20,000	20,000
Cement and Cmt. Services - Other	1514 175		1514 175		0
Rental - Drilling Tools and Equipment	1514 180		1514 180		0
Rental - Miscellaneous	1514 185	23,000	1514 185	3,000	26,000
Testing - Drill Stem / Production	1514 190	13,000	1514 190	2,500	15,500
Open Hole Logging	1514 200	45,000	NA		45,000
Mudlogging Services	1514 205	18,550	NA		18,550
Special Services	1514 210		1514 210		0
Plug and Abandon	1514 215	15,000	1514 215	(15,000)	0
Pulling and/or Swabbing Unit	NA		1514 217	13,800	13,800
Reverse Equipment	NA		1514 218	5,800	5,800
Wireline Services	1514 220		1514 220	18,000	18,000
Stimulation	NA		1514 221	12,000	12,000
Pump / Vacuum Truck Services	1514 225		1514 225	6,500	6,500
Transportation	1514 228	1,600	1514 228	2,500	4,100
Tubular Goods - Inspection & Testing	1514 230		1514 230	5,000	5,000
Unclassified	1514 240		1514 240		0
Telephone and Radio Expense	1514 245	1,600	1514 245	400	2,000
Engineer / Geologist / Landman	1514 250	22,500	1514 250	2,500	25,000
Company Labor - Field Supervision	1514 255	22,500	1514 255	6,000	28,500
Contract Labor / Roustabout	1514 260	2,000	1514 260	8,000	10,000
Legal and Professional Service	1514 270	10,000	1514 270	2,000	12,000
Insurance	1514 275	20,110	1514 275		20,110
Overhead	1514 280	10,500	1514 280	2,000	12,500
SUBTOTAL		621,840		117,900	739,740
Contingencies (10%)		62,181		11,790	73,971
ESTIMATED TOTAL INTANGIBLES		683,991		129,690	813,681

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

APPC APPROVAL	DATE
PREPARED BY: H. R. Willis	4/15/99
APPROVED BY: TRM	
APPROVED BY: <i>[Signature]</i>	5/3/99
APPROVED BY: <i>[Signature]</i>	5/4/99

WI. APPROVAL: COMPANY James H. Yates, Inc. 1.60%
 BY _____
 TITLE _____
 DATE _____