

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

May 28, 1998

1/21/16  
Case 15433

Harvey E. Yates Company  
Spiral, Inc.  
Explorers Petroleum Corporation  
HEYCO Employees, Ltd.  
P. O. Box 1933  
Roswell, New Mexico 88202-1933

James H. Yates, Inc.  
Colkelan Corporation  
906 St. Francis Dr., Suite C  
Santa Fe, New Mexico 87501

ATTN: Mr. Vernon Dyer

Re: T-18-S, R-33-E  
Section 31: All  
Section 32: S/2  
Lea County, New Mexico  
Gazelle Prospect

Gentlemen:

This letter shall evidence our agreement regarding the captioned lands. Nearburg Exploration Company, L.L.C. (NEC) is the owner of operating rights and contractual rights in Section 31, T-18-S, R-33-E, Lea County, New Mexico, described in Schedule "A" attached hereto. Harvey E. Yates Company, Spiral, Inc., Explorers Petroleum Corporation, HEYCO Employees, Ltd., James H. Yates, Inc. and Colkelan Corporation (hereinafter called HEYCO group) are the owners of leasehold, operating rights and contractual rights in the S/2 of Section 32, T-18-S, R-33-E, Lea County, New Mexico, described in Schedule "A-1" attached hereto.

For valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. NEC will assign to the HEYCO group an undivided 1/3<sup>rd</sup> of 8/8ths interest in the N/2 of Section 31, T-18-S, R-33-E in the following percentages:

Harvey E. Yates Company	26.66667%
Spiral, Inc.	1.33333%
Explorers Petroleum Corporation	1.33333%
HEYCO Employees, Ltd.	1.33333%
James H. Yates, Inc.	1.33333%
Colkelan Corporation	1.33333%

2. NEC will assign 1/3<sup>rd</sup> of its interest in the S/2 of Section 31, T-18-S, R-33-E to the HEYCO group in the same percentages as set forth in Paragraph 1.

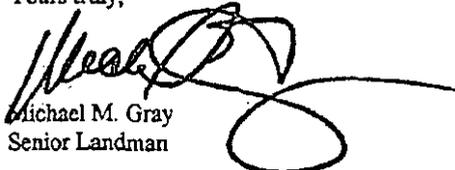
NMOCD CASE NO. 15433  
Nearburg Producing Company  
Exhibit No. 1  
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3. The HEYCO group shall participate as to the percentages set forth in Paragraph 1, in the drilling of the Gazelle "31" Federal #1 well located 1,980' FNL and 1,650' FEL of Section 31, T-18-S, R-33-E. Said well will be drilled to a depth of 13,600' or a depth sufficient in NEC's opinion to penetrate and test the Morrow formation.
4. The HEYCO group's participation in the drilling of the initial well shall be subject to that certain Operating Agreement dated January 4, 1998, covering the N/2 of Section 31, T-18-S, R-33-E, between Nearburg Producing Company, as operator and Edward R. Hudson Trust #1, et al, as non-operators. Said operating agreement is attached hereto as Schedule "B".
5. The HEYCO group shall assign to NEC an undivided 66.67% of its operating rights in and to the S/2 of Section 31, T-18-S, R-33-E, from 4,660' below the surface to the base of the Morrow formation, reserving an overriding royalty interest equal to the difference between lease burdens and 75%, proportionately reduced to the interest assigned.
6. All operations conducted in the S/2 of Section 31 and the S/2 of Section 32, T-18-S, R-33-E shall be conducted under the terms of the Operating Agreement attached hereto as Schedule "C".

If this agreement meets with your approval, please execute and return, within ten (10) days from the date hereof, this agreement along with the enclosed Authority for Expenditure for the Gazelle "31" Federal #1 well, evidencing your agreement to participate in the drilling of said well under the terms of this agreement and the operating agreement attached hereto as Exhibit "B".

Yours truly,

  
Michael M. Gray  
Senior Landman

MMG/dw  
encl.

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May 28, 1998  
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AGREED THIS 22 day of JUNE, 1998.

**HARVEY E. YATES COMPANY**

By: *Stu M. Yates*  
Its: V.P.

AGREED THIS 22 day of JUNE, 1998.

**SPIRAL, INC.**

By: *Stu M. Yates*  
Its: V.P.

AGREED THIS 22 day of JUNE, 1998.

**EXPLORERS PETROLEUM CORPORATION**

By: *Stu M. Yates*  
Its: V.P.

AGREED THIS 22 day of JUNE, 1998.

**HEYCO EMPLOYEES, LTD.**

By: *Stu M. Yates*  
Its: V.P. HEYCO, Gen. Partner

AGREED THIS 22 day of JUNE, 1998.

**JAMES H. YATES, INC.**

By: *Stu M. Yates*  
Its: V.P.

AGREED THIS 22 day of JUNE, 1998.

**COLKELAN CORPORATION**

By: *Stu M. Yates*  
Its: V.P.

Schedule A

to Letter Agreement dated May 28, 1998  
between Nearburg Exploration Company, L. L. C. and  
Harvey E. Yates Company, et al

Oil and Gas Lease

Serial No.: LC 069276  
Date: July 1, 1949  
Recorded: Book 495, Page 361, Lea Co. NM  
Lessor: United States of America  
Lessee: Siegfried James Iverson, et al  
Description: Insofar as said lease covers Section 31, T-18-S, R-33-E, Lea Co. NM

Term Assignments

Assignor: Nations Bank of Texas, NA, Trustee, et al  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: August 28, 1997, effective September 1, 1997  
Recorded: Book 823, Page 707, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500' or below the base of the Penrose formation, whichever is greater

Assignor: Hanagan Properties  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: December 4, 1997  
Recorded: Book 848, Page 66, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500'.

Assignor: Hugh E. Hanagan, et ux  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: December 4, 1997  
Recorded: Book 848, Page 58, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500'.

Assignor: Roy G. Barton, Jr., Trustee & Opal Barton Revocable Trust  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: December 4, 1997  
Recorded: Book 853, Page 108, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500'.

Assignor: Robert J. Leanord, Trustee  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: December 4, 1997  
Recorded: Book 848, Page 50, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500'.

Assignor: New Tex Oil Co.  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: December 4, 1997  
Recorded: Book 848, Page 42, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500'.

Assignor: Mary T. Ard, Trustee  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: February 10, 1998  
Recorded: Book 856, Page 183, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below the base of the Penrose formation

Assignor: J. Hiram Moore, et al, Trustees  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: October 3, 1997  
Recorded: Book 834, Page 258, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers all of Section 31-T18-S, R-33-E, Lea Co. NM, below 4,500' or below the base of the Penrose formation, whichever is greater.

Assignor: Matador Petroleum Corporation  
Assignee: Nearburg Exploration Company, L. L. C.  
Date: April 1 1998  
Recorded: Book 874, Page 571, Lea Co. NM  
Description: The above described Oil & Gas Lease insofar as it covers the N/2 of Section 31-T18-S, R-33-E, Lea Co. NM

Farmout Agreement

Farmor: Lindy's Living Trust and Delmar Hudson Lewis  
Farnee: Nearburg Exploration Company, L.L.C.  
Date: March 19, 1998  
Description: The above described Oil & Gas Lease insofar as it covers the N/2 of Section 31-T18-S, R-33-E, Lea Co. NM

**Exhibit A-1**  
to Letter Agreement dated May 28, 1998  
between Nearburg Exploration Company, L. L. C. and  
Harvey E. Yates Company, et al

**Oil and Gas Lease**

Serial No.: VB 0097  
Date: May 1, 1987  
Recorded: Book 411 , Page 187 , Lea Co. NM  
Lessor: State of New Mexico  
Lessee: Harvey E. Yates Company  
Description: Insofar as said lease covers the S/2 of Section 32, T-18-S, R-33-E, Lea Co. NM, from  
4660' below the surface to the base of the Morrow formation.