

HEYCO

PETROLEUM PRODUCERS



HARVEY E. YATES COMPANY

P.O. BOX 1933

ONE SUNWEST CENTRE

505 / 623-6601

FAX 505 / 622-4221

ROSWELL, NEW MEXICO 88202-1933

March 3, 1999



Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

Attention: Michael M. Gray,
Senior Landman

Re: Sagebrush 24 Federal Com #1
T-19S, R-33E, N.M.P.M.
Section 24: E/2
Lea County, New Mexico
Revisions to JOA

EXHIBIT 3-A
CASE NO. _____

Dear Mike:

Harvey E. Yates Company (HEYCO) has reviewed the joint operating agreement (JOA) that you propose for the drilling of the captioned well. HEYCO, Spiral, Inc., Explorers Petroleum Corporation, HEYCO Employees, Ltd., James H. Yates, Inc. and Colkelan Corporation (HEYCO, et al) request the following changes to the JOA:

1) Cover Page, Signature Pages and Exhibits: Please change the effective date of this JOA to coincide with the first day of the month in which the Initial Test Well is actually spud.

2) Page II., Table of Contents, Article VIII., B.: Please leave provision "Renewal or Extension of Leases" in the JOA.

3) Page 1, Line 3: Change Nearburg Producing Company to Nearburg Exploration Company, L.L.C.

4) Page 3, Article IV., B., Lines 18 through 61: Please strike Paragraphs numbered 1 and 2. In the first line of Paragraph 3., strike the words "other than those set forth in Articles IV.B.1. and IV.B.2. above". These changes will make the losses joint between the parties.

5) Page 4, Article V., A., Line 6: Change Nearburg Producing Company to Nearburg Exploration Company, L.L.C.

6) Page 4, Article VI., A., Line 54: Change the words "be authorized to" to "operations for" so it reads..."Operator shall commence operations for the drilling of a well..."

7) Page 4, Article VI., A., Line 57: Change the footage location to 660' FEL & 1650' FNL, unless you have chosen a different footage location that HEYCO, et al should approve before a final change is made to this provision.

8) Page 5, Article VI., B.1., Line 15: Strike the words "exclusive of Saturday, Sunday and legal holidays".

9) Page 5, Article VI., B.1., Lines 13, 16 and 18: Delete the added wording and asterisk in these lines. HEYCO prefers the original language.

10) Page 5, Article VI., B.2., Line 50: Strike the words "exclusive of Saturday, Sunday and legal holidays".

11) Page 6, Article VI., (a): Change 200% to 125%.

12) Page 6, Article VI., (b): Change 500% to 300% in Line 21 and 22.

13) Page 8, Article VI., E.1., Line 36: Strike the words "exclusive of Saturday, Sunday and legal holidays".

14) Page 10, Article VII., Option 2., Line 7: Strike the words "exclusive of Saturday, Sunday and legal holidays".

15) Page 11, Article VIII., B. Renewal and Extension of Leases: Leave this provision in the JOA.

16) Page 12, Article IX., Line 54: Change the "Internal Revenue Code of 1954" to the "Internal Revenue Code of 1986".

17) Page 14, Article XIV., B., Line 12: Add the words "New Mexico" to the blank in this paragraph.

18) Page 14, Article XV. Other Provisions:

a) Line 50-52: Delete the words "and any party electing to participate must pay its share of the cost within the fifteen (15) day period after receipt of the notice, failing in which the parties interest who elected to participate but did not timely pay will be subject to the reassignment provision as set forth below."

b) Line 55: Delete the words "or pay its share of the cost".

c) Paragraph C., Lines 82-86: Delete this paragraph.

d) Page 14(A), Paragraphs E., F. and H.: Delete these paragraphs.

19) Signature Pages and Exhibits: Change Nearburg Producing Company to Nearburg Exploration Company, L.L.C. in all headings on each page.

20) Exhibit "A", Paragraph II. Restrictions as to Depth or Formations: Please add "Section 24: NE/4 - No limitations" and " Section 24: SE/4 - Limited to depths below the base of the Bone Springs formation down to the base of the Morrow formation."

21) Exhibit "A", Paragraph III. Percentages of Parties to this Agreement: Change HEYO's interest and add the following entities:

Harvey E. Yates Company	.32000000
Spiral, Inc.	.01600000
Explorers Petroleum Corporation	.01600000
HEYCO Employees, Ltd.	.01600000
James H. Yates, Inc.	.01600000
Colkelan Corporation	.01600000

22) Exhibit "A", Paragraph IV. Oil and Gas Leases Subject to this Agreement: List all burdens of record for each lease. HEYCO, et al do not have additional burdens to their interest, other than those created by ARCO and Ray Westall in the Term Assignment covering their rights and interest in NM-92192.

23) Exhibit "A", Paragraph V. Addresses of Parties to this Agreement: Add the entities described in 20) above at the same address for HEYCO. Change Nearburg Producing Company to Nearburg Exploration Company, L.L.C.

24) Exhibit "C", Page 2, II., 3. Labor, A.(4): Delete the words "which shall include the salaries and wages of professional employees associated with the sale of gas and/or casinghead gas from any well located in the Contract Area."

25) Exhibit "C", Page 3, 10. Legal Expenses: Leave the words "except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provision of Section III unless otherwise agreed to by the parties, except as provided in Section I, Paragraph 3."

26) Exhibit "C", Page 4, 1., iii: Delete the words "including costs and expenses of professional employees associated with and employed for the sale of gas and/or casinghead gas from any well located on the Contract Area." Also, check "(X) shall be governed by the overhead rates, or" instead of the second option.

27) Exhibit "C", Page 4, B. Overhead-Percentage Basis: Delete this provision in its entirety.

March 3, 1999

Page 4

28) Exhibit "C", Page 5, 2. Overhead-Major Construction: Change to the following:

- A. 5.0%
- B. 3.0%
- C. 2.0%

29) Exhibit "C", Page 5, 3. Catastrophe Overhead: Change to the following:

- A. 5.0%
- B. 3.0%
- C. 2.0%

30) Exhibit "C", Page 6: Please replace this page with the Page 6 enclosed with this letter.

31) Exhibit "C", Page 7, Paragraph E.(1): This paragraph to read "Loading or unloading costs may be charged to the Joint Account at the Operator's actual cost." The remainder of the paragraph to be deleted.

32) Exhibit "E", Paragraph 3, Line 2: Change the words "twenty-five percent (25%)" to "fifty percent (50%)".

Please sign, date and return one copy of this letter to HEYCO by March 19, 1999. We look forward to an update from you concerning a revised AFE for the Sagebrush 24 Federal Com #1 well and the status of an extension on the ARCO/Westall Term Assignment. If you have any questions concerning the above, please call me at 505/623-6601.

Very truly yours,



Melissa Randle
Landman

/mvr
SagebrushJOA.doc/C:

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 1999.

NEARBURG EXPLORATION COMPANY, L.C.C.

By: _____

Title: _____

COPAS

A. New Material (Condition A)

shall be priced using the Computerized Equipment Pricing

- (1) Tubular Goods Other than Line Pipe/ System (CEPS) published by COPAS, which takes into account historical price multipliers.

~~(a) Tubular goods, sized 2 1/2 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.~~

~~(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.~~

~~(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.~~

~~(d) Macaroni tubing (size less than 2 1/2 inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.~~

shall be priced using the Computerized Equipment Pricing System (CEPS)

- (2) Line Pipe / published by COPAS, which takes into account historical price multipliers.

~~(a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.~~

~~(b) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.~~

~~(c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.~~

~~(d) Line pipe including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.~~

- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

- (1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

- (2) Material used on and moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

- (3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

- (1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

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

CC: TKM
4-5-99

March 19, 1999

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

FAX: 505/622-4221

Attention: Melissa Randle

Re: Sagebrush 24 Federal Com #1
T-19-S, R-33-E, Section 24: E/2
Lea County, New Mexico
Sagebrush Prospect

Gentlemen:

Please refer to your letter of March 3, 1999 regarding your requested changes to the joint Operating Agreement which we submitted to you dated October 30, 1998 covering the captioned lands.

We have the following comments regarding the items set forth in your letter proposing changes to the Operating Agreement:

1. Nearburg would make the effective date of the Operating Agreement the date it is executed by HEYCO et al, so that Nearburg can perform its functions as Operator for purposes such as permitting wells, securing rights-of-way, title opinions, etc. The commencement date on page 4, line 54 should be changed to September 1, 1999.
2. We agree to your change in item 2.
3. Rather than changing the name of the Operator to Nearburg Exploration Company, L.L.C., we propose the addition of the following language as an additional provision to the Operating Agreement: "Nearburg Producing Company (NPC) is the operating company of Nearburg Exploration Company, L.L.C. (NEC). It is agreed and understood that NPC shall not remain as Operator should NEC sell, trade or otherwise divest itself of all of its interest in or under this agreement. NEC and NPC shall be considered one voting entity under the terms of this agreement."
4. We agree to your change in item 4.
5. Refer to item 3.
6. We agree to your changes in item 6.
7. Our preferred location is 660' FNL and 990' FEL of Section 24. As I mentioned to Vernon, we would like to meet with you to discuss the merits of our opposing locations.

8. We agree to your changes in item 8.
9. We agree to your changes in item 9.
10. We agree to your changes in item 10.
11. We agree to your changes in item 11.
12. We agree to your changes in item 12.
13. We agree to your changes in item 13.
14. We agree to your changes in item 14.
15. We agree to your changes in item 15.
16. We agree to your changes in item 16.
17. We agree to your changes in item 17.
18. We agree to your changes in items 18. a), b) and c). With regard to your comment 18. d) under paragraph 14E., we would leave this paragraph in place and add the following language: "In the event Non-Operator elects to market its own gas, no charges shall be made to Non-Operator under the terms of this Paragraph E." With regard to paragraph 14.F., we would change this paragraph to read "Costs and expenses, including fees and expenses of attorneys and consultants incurred by Operator which may arise due to other operators in the area applying for non-standard locations and/or other regulatory hearings, shall not be charged to the Non-Operators without their written consent." We agree to your deletion of paragraph 14.H.
19. Refer to item 5.
20. We agree to your changes in item 20.
21. We agree to your changes in item 21.
22. We agree to your changes in item 22.
23. Refer to item 5 and item 21.
24. We agree to your changes in item 24.
25. We agree to your changes in item 25.
26. We agree to your changes in item 26.
27. We agree to your changes in item 27.
28. We agree to your changes in item 28.
29. We agree to your changes in item 29.

30. Nearburg is not a subscriber to the Computerized Equipment Pricing System published by COPAS. If you are a subscriber, please furnish us with the current price listings for tubular goods and line pipe.

31. We agree to your changes in item 31.

32. We agree to your changes in item 32.

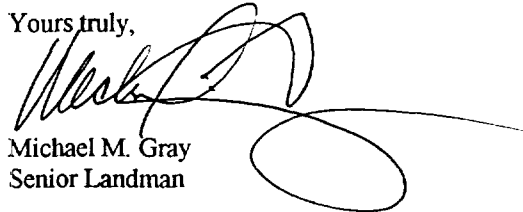
If these changes to your comments are acceptable to you, please let us know and we will prepare a new Operating Agreement for your execution.

With reference to your inquiry regarding the ARCO/Westall Term Assignment in the SE/4 of Section 24, we have received a verbal agreement from ARCO for an extension of 120 days for this Term Assignment. We are preparing an instrument providing for this extension.

We are enclosing an AFE for the drilling of a 13,500' Morrow test well at the location 660' FNL and 990' FEL of Section 24. As previously stated in this letter, we would like to meet with you as soon as possible to discuss the relative merits of our proposed locations.

Please furnish us with your response to this letter as soon as possible.

Yours truly,

A handwritten signature in black ink, appearing to read 'Michael M. Gray', with a large, stylized loop at the end.

Michael M. Gray
Senior Landman

MMG:kg

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: 3/10/99

EST. SPUD DATE: 1999

EST. COMPLETION DATE: 1999

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 13,600 Ft @ 19.35 \$/Ft	1514.101	263,160	NA		263,160
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	1515.123	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	1515.132		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		1515.172	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	1514.195	13,000	1515.195	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	1514.190		1515.190		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		1515.219	5,800	5,800
Wireline Services	1514.205		1515.205	18,000	18,000
Stimulation	NA		1515.221	12,000	12,000
Pump / Vacuum Truck Services	1514.220		1515.220	6,500	6,500
Transportation	1514.225	1,600	1515.225	2,500	4,100
Tubular Goods - Inspection & Testing	1514.230		1515.230	5,000	5,000
Unclassified	1514.245		1515.245		0
Telephone and Radio Expense	1514.240	1,600	1515.240	400	2,000
Engineer / Geologist / Landman	1514.250	22,500	1515.250	2,500	25,000
Company Labor - Field Supervision	1514.255	22,500	1515.255	6,000	28,500
Contract Labor / Roustabout	1514.265	2,000	1515.265	8,000	10,000
Legal and Professional Service	1514.270	10,000	1515.270	2,000	12,000
Insurance	1514.275	20,110	1515.275		20,110
Overhead	1514.280	10,500	1515.280	2,000	12,500
SUBTOTAL		612,970		117,900	730,870
Contingencies (10%)		61,297		11,790	73,087
ESTIMATED TOTAL INTANGIBLES		674,267		129,690	803,957

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: 3/10/99 EST. SPUD DATE: 1999 EST. COMPLETION DATE: 1999
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		1522.381		0
Gas Meter	NA		1522.385	3,000	3,000
Lact Unit	NA		1522.387		0
Vapor Recovery Unit	NA		1522.389		0
Other Well Equipment	NA		1522.390	2,500	2,500
ROW and Damages	NA		1522.393	2,500	2,500
Surface Equipment Installation Costs	NA		1522.395	15,000	15,000
Elect. Installation	NA		1522.397		0
ESTIMATED TOTAL TANGIBLES		87,400		266,952	354,352
ESTIMATED TOTAL WELL COSTS		761,667		396,642	1,158,309

THIS AFE IS ONLY AN ESTIMATE. BY SIGNING YOU AGREE TO PAY YOUR SHARE OF THE ACTUAL COSTS INCURRED.

NPC APPROVAL	DATE
PREPARED BY: H. R. Willis	3/10/99
APPROVED BY: TRM	3/11/99
APPROVED BY: [Signature]	3/11/99
APPROVED BY: [Signature]	3/11/99

WI APPROVAL: COMPANY
BY
TITLE
DATE