

**KCS Medallion Resources, Inc.**

7130 South Lewis Avenue • Suite 700 • Tulsa, Oklahoma 74136-5488 • 918 488-8283 Telephone • 918 488-8182 Fax

April 14, 1997

VIA FAX 505-748-4572

MYCO Industries, Inc.  
105 South 4th, Yates Bldg.  
Artesia, NM 88210

Attention: Doug Hurlbut

Re: Unorthodox Gas Well Location  
Section 27-18S-29E  
Eddy County, New Mexico

NEW MEXICO  
OIL CONSERVATION DIVISION  
KCS EXHIBIT 7  
CASE NO. 11752

Gentlemen:

KCS Medallion Resources, Inc. ("Medallion") has filed an application with the New Mexico Oil Conservation Division seeking approval of an unorthodox gas well location ("the Application") for a Morrow test to be drilled at a location 560 feet from the North line and 560 feet from the East line of Section 27-18S-29E.

Medallion and MYCO Industries, Inc. ("MYCO") hereby agree to the following with regard to the Application.

1. Medallion will amend the location in the Application to be 990 feet from the North line and 990 feet from the East line of Section 27-18S-29E.
2. Medallion will accept a production penalty on the well drilled pursuant to the Application equal to 25% of the current Deliverability of such well into the pipeline from the Morrow formation or any other formations spaced on 320 acres. Deliverability is defined as the sustained rate of flow determined by testing the well into the production pipeline for a 24 hour period.
3. Deliverability will be determined on the well every three (3) months for the first two (2) years of its production life, and every six (6) months thereafter and MYCO will be furnished with copies of the Deliverability test information within ten (10) days following each test.
4. MYCO will not protest the current Application under case #11752 subject to the above changes.
5. Medallion will provide MYCO with C-115 reports on a monthly basis on the well.

Should these terms correctly set forth the agreement of the parties, please so evidence by signing in the space provided below and returning one executed copy of this letter to the undersigned by fax at (918)488-8182.

Sincerely,

KCS MEDALLION RESOURCES, INC.



D. R. Deffenbaugh, CPL  
Senior Landman

AGREED TO AND ACCEPTED  
THIS 14 DAY OF APRIL, 1997.  
MYCO INDUSTRIES, INC.



By: Frank Yates, Jr.  
Title: Attorney-in-Fact

DRD/nb  
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