

While I. T. was still the operator of record, in March, 1994, Chi Energy *fraudulently requested a Ratification and Consent (R and C) from Marathon, Devon and Yates without, the current operator's consent or knowledge.* Yates Petroleum and its sister companies apparently signed such a R and C form without checking with the current operator or receiving a formal notification from same. This signing was in violation of the JOA since I. T. did not and has not resigned formally (no certified letter was ever sent to Yates or other interest owners to the effect) as the operator at the time of R and C form being sent. Secondly, in March 1994, Chi submitted a C104 (change of operator form) for approval without I. T.'s knowledge and acquiescence. Again, NMOCD, without proper knowledge of the situation, *erroneously approved* the said C104 form by assuming that I. T. had resigned based on Chi's assertion in the application. However, *the approval for Chi was instantly revoked as soon as I. T. protested in writing.* I. T. was immediately restored as the record operator until the matter sits as of today.

4 CONCLUSION

Finally, if contested in the court of law, I. T. will begin a discovery process to Yates Petroleum in order to compel it to produce its correspondences as to how the Ratification and Consent form was presented by Chi and signed by Yates. We will also wish to know how and why the Yates' signing was conducted, which was in violation with the terms of JOA.

In summary, I. T. believes that Chi Energy's has no merit whatsoever to become the operator for DIIY B under the terms of JOA. It has only a very narrow ground to argue since it acquired an interest from a non-operator, Sherman Oil and Gas, who did not and could not have become a NM operator and under the JOA due to uniformity of unit ownership.

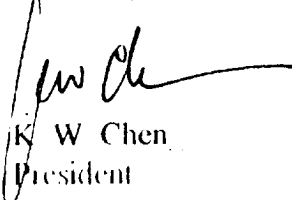
5 SUGGESTIONS

If Chi still wishes to contest the matter, I. T. agrees that it is a costly effort to resolve it in a court of law. I. T. hereby counters with the following options for resolution:

[REDACTED]

If you have additional questions, please do not hesitate to direct them to me.

Very truly yours,


K. W. Chen
President

cc Marathon
Yates Petroleum