

I. T. Properties
3502 Yachtclub Ct.
Arlington, Tx 76016
817 572-3915; Fax 817 478 1925

via Facsimile
3:45 pm and Certified Letter

February 15, 1995

Chi Energy, Inc.
P. O. Box 1799
Midland, Texas
Attn.: William R. Bergman

Copy

Re: DHY "B" #1
Eddy Co., NM

RECEIVED

MAR 15 1995

Dear Sir,

This letter is written to refute those assertions presented in your February 8, 1995 letter in which Chi Energy, Inc. offered three alternatives to move forward in connection with the recompletion of the DHY B well.

I. T. Properties (hereinafter called I. T.) stands in total disagreement with the statement that Chi Energy, Inc. (hereinafter called Chi) should be appointed as Operator for the above captioned lease.

1. **OPERATING RIGHTS**

I. T. and Sherman Oil and Gas (hereinafter called Sherman) jointly acquired interests in a unit comprising of two leases from Dekalb Energy (DEPCO) who was the operator of the two wells, DHY State #1 and DHY State B #1. Dekalb was to turn over operations to I. T. and Sherman upon appropriate financial transaction being consummated. ***Since Sherman was not a bonded operator in New Mexico***, I. T. assumed operations for both wells in January, 1991, in accordance with the Joint Operating Agreement governing the Unit (hereinafter called JOA). I. T. and Sherman made a cross assignment of the two wells whereby Sherman was assigned the title for the DHY B and I. T. was assigned title for DHY State #1. However the rights to operate the unit for both wells was retained by I. T. in 1991 and never relinquished from day one. Upon I. T.'s assuming operations of both wells from 1991, Sherman along with all other interest owners acquiesced fully to the operations and remained as a non-operator. I. T. performed its duty diligently as the operator for both DHY State #1 and DHY "B" #1 wells without any interruption. Ample records exist to attest our duties as the operator of record and full acknowledgment from all interest owners by the same from 1991 to 1995.