

PADILLA LAW FIRM, P.A.

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OIL CONSERVATION
DIVISION

November 6, 2003

Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Attn: David K. Brooks
Assistant General Counsel

Re: Pronghorn Management Corp.—Case No. 12811

Dear Mr. Brooks:

I have been retained by Pronghorn Management Corp. in connection with your letter dated June 23, 2003, and specifically with the assessment of penalties in the amount of \$53,000 under Order R-11934.

In your letter to Pronghorn you indicate your awareness that Pronghorn no longer operates the wells which are under the penalty assessment that was made in Order R-11934. It is our purpose by this letter to inform you that under the Assignment and Bill of Sale conveying the oil properties on which the wells are located, the assignee, Aspen Oil, Inc. completely indemnified Baber Well Servicing Company, the assignor, for every variety of compliance issues that were or could have been raised in Case No. 12811 at whatever time they may have accrued. The purchase price was discounted for compliance with the Division's order. A copy of the Assignment and Bill of Sale is enclosed.

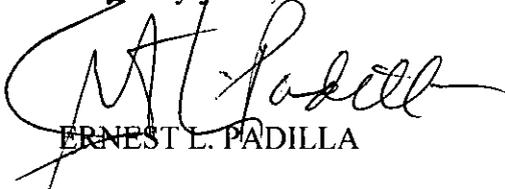
The transfer of the oil properties was not made in the absence of the Oil Conservation Division's regulatory control. The Division, in approving the change of operator forms for the affected wells, required double bonding through the Division's Artesia office director. Ordinarily a change of operator occurs without Division control. In this case, the double bonding requirement implicitly, if not directly, acknowledged that special care was taken by the Division that the new operator had to comply with the requirements of Order R-11934.

We are not aware whether the Division has sought compliance from Aspen Oil, Inc. as the successor operator, which assumed operations of the wells under the watchful eye of the Division. Certainly, the Division could have denied the change of operator

until compliance had occurred. The Division's action in approving the change of operator on the wells, we feel, recognizes that oil and gas property transactions occur in the normal course of business in the oil industry. To compel compliance against Pronghorn, under the circumstances, is not logical, especially since Pronghorn is no longer the operator of the wells. This is not a simple case of Pronghorn trying to evade regulatory compliance. It is a case where compliance liability shifted from Pronghorn to Aspen Oil, Inc. with the approval of the Oil Conservation Division.

Accordingly, we are of the opinion that it is inequitable for the Division to look to Pronghorn for compliance with Order R-11934 or that it be assessed any penalties for non-compliance.

Very truly yours,



ERNEST L. PADILLA

ELP/maq

Enclosures as cited

cc: Pronghorn Management Corp.

COPY

ASSIGNMENT AND BILL OF SALE

This Assignment and Bill of Sale (the "Assignment") is made and entered into this 2/26/03 day of February, 2003, but made effective February 1, 2003, by and between **Baber Well Servicing Company** ("Assignor"), whose address is Post Office Box 1772, Hobbs, New Mexico 88240, and **Aspen Oil, Inc.** ("Assignee"), whose address is Post Office Box 2674, Hobbs, New Mexico 88241.

For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor grants, assigns, and conveys to Assignee, and Assignee's successors and assigns, the following:

(a) All of Assignor's right, title, and interest in, to, and under the oil and gas leases, lands, and depths that are described in Exhibit "A" attached hereto and made a part hereof; subject, however, to the restrictions, exceptions, reservations, conditions, limitations, existing royalties, overriding royalties, production payment interests, burdens on production, and other matters, if any, heretofore created and validly shown of record in Eddy County, New Mexico;

(b) All of Assignors' right, title, and interest in, to, and under, or derived from:

(i) All of the presently existing and valid unitization agreements and unit operating agreements and the properties and interests credited thereby;

(ii) All of the presently existing and valid oil, casinghead gas, and gas sales purchase agreements; and

(iii) All other contracts, agreements and instruments;

which affect, relate to, or are associated with any of the properties or interests described in Exhibit "A" (or properties pooled or unitized therewith), or to the production of oil, gas and other hydrocarbon substances from or attributable to said interests;

(c) All of Assignor's right, title and interest in and to any and all wells located on or associated with the oil and gas leases, lands, and depths that are described in Exhibit "A", and all equipment, fixtures and other personal property associated with said wells;

(d) All personal property, improvements, easements, permits, licenses, servitudes and rights-of-way situated upon or used or useful or held for future use in

connection with the exploration, development or operation of the oil and gas leases, lands, and depths that are described in Exhibit "A" or the production, treating, storing or transportation of oil, gas and other hydrocarbon substances, including, but not by way of limitation, wells, casing, tubing, derricks, pumps, flow lines, gas lines, water lines, salt water disposal facilities, tanks, separators, buildings, machinery, equipment, roads and other appurtenances situated on the oil and gas leases, lands, and depths that are described in Exhibit "A" or lands pooled or unitized therewith or which are used in connection with hydrocarbon operations on the interests described in subparagraphs (a), (b), and (c) above, or lands pooled or unitized therewith.

With respect to the United States of America oil and gas leases or interests therein, which are conveyed herein, separate assignments or transfers on the approved forms may be executed by Assignor to the Assignee in sufficient counterparts to fulfill applicable statutory and regulatory requirements and said assignments and transfers, although unqualified in form and not specifically containing all of the terms and provisions hereof, shall nevertheless be deemed to contain all of the terms, provisions, remedies, powers and privileges set forth in this Assignment as fully to all intents and purposes as though the same were set forth at length in such separate assignments.

Assignor shall execute and deliver all such other instruments, notices, division or transfer orders, releases, acquittances and documents, and will do all such other acts and things as may be necessary to more fully assure Assignee, its successors and assigns, all of the respective rights, titles, interests, estates, remedies, powers and privileges herein and hereby granted, conveyed, and assigned or intended so to be.

THE EXPRESS REPRESENTATIONS OF ASSIGNOR CONTAINED IN THIS CONVEYANCE ARE EXCLUSIVE AND ARE IN LIEU OF ANY OTHER REPRESENTATIONS OR WARRANTIES. ASSIGNOR EXPRESSLY DISCLAIMS AND NEGATES AND ASSIGNEE HEREBY WAIVES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE QUALITY, QUANTITY, OR VOLUME OF RESERVES, OIL, GAS, OR OTHER HYDROCARBONS, IF ANY, IN OR UNDER THE LEASES; THE ENVIRONMENTAL CONDITION, EITHER SURFACE OR SUBSURFACE, OR OTHER CONDITION OF THE INTERESTS (REAL OR PERSONAL) CONVEYED HEREIN; OR THE OWNERSHIP OR OPERATION OF THE INTERESTS (REAL OR PERSONAL) CONVEYED HEREIN OR ANY PART THEREOF. ASSIGNOR DOES NOT MAKE OR PROVIDE, AND ASSIGNEE HEREBY WAIVES, ANY WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE QUALITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMITY TO SAMPLES, OR CONDITION OF THE INTERESTS (REAL OR PERSONAL) CONVEYED HEREIN OR ANY PART THEREOF. ASSIGNOR DISCLAIMS AND NEGATES, AND ASSIGNEE HEREBY WAIVES, ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, OR STATUTORY. THE PERSONAL PROPERTY, EQUIPMENT, IMPROVEMENTS, FIXTURES, AND APPURTENANCES CONVEYED HEREIN ARE SOLD AND ASSIGNEE ACCEPTS SAME "AS IS, WITH ALL FAULTS".

Assignee assumes full responsibility for, and agrees to release, indemnify, hold harmless and defend Assignor, its agents, officers, and employees from and against all loss, liability, claims, fines, expenses, costs (including attorney's fees and expenses) and causes of action caused by or arising out of any federal, state, or local laws, rules, orders, and regulations applicable to any waste material or hazardous substances on or included with the leases, lands, depths and interests conveyed herein or the presence, disposal, release, or threatened release of all waste material or hazardous substance therefrom into the atmosphere or into or upon land or any water course or body of water, including ground water, whether or not attributable to Assignor's activities or the activities of Assignor's officers, employees, or agents, or to the activities of third parties (REGARDLESS OF WHETHER OR NOT ASSIGNOR WAS OR IS AWARE OF SUCH ACTIVITIES AND REGARDLESS OF ANY CLAIMED NEGLIGENCE IN WHOLE OR IN PART ATTRIBUTABLE TO ASSIGNOR) prior to, during, or after the period of Assignor's ownership of the leases, lands, depths, and interests described in Exhibit "A". This indemnification and assumption shall apply to liability for voluntary environmental response actions undertaken pursuant either to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA), as such may be amended from time to time, or to any other federal, state, or local law.

Assignee agrees to comply with all laws and governmental regulations with respect to abandonment of wells and/or abandonment of the leasehold property including, where applicable, the plugging of wells, the compliance with law or rules regarding inactive or unplugged wells, including bonding requirements, and restoration as specified in the leases conveyed herein. Assignee agrees to release, protect, defend, indemnify, and hold Assignor, its officers, agents, and employees free and harmless from and against any and all costs, expenses, claims, demands, and causes of action of every kind and character arising out of, incident to, or in connection with the abandonment of wells and/or abandonment of and proper disposition of any leasehold property, including, without limitation, the leases, any structures, materials, lands, wells, casing, leasehold equipment, and other personal property, plugging requirements or exceptions thereto, including bonding requirements, regardless of whether the liability therefor is based in whole or in part upon some alleged act, negligence, or omissions of Assignor, or of the Assignee, or of some other party.

Assignee shall dispose of or discharge any waste from the interests conveyed herein (including but not limited to produced water, drilling fluids, and other associated wastes) in accordance with applicable local, state, and federal regulations. When and if any interest which has been assigned hereunder, is terminated, Assignee shall take at its sole expense whatever remedial action necessary to meet any local, state, or federal requirements directed at protecting human health and the environment in effect at that time.

Assignor, its successors and assigns, warrants and agrees to forever defend title to the property and leasehold interests conveyed herein against the claims of all parties claiming the same or any part thereof, by, through or under Assignor, but not otherwise.

ASSIGNORS:

Baber Well Servicing Company

ASSIGNEE:

Aspen Oil, Inc.

By: *G. A. Baber*
Its: *President*

By: *Larry Barnett*
Its: *President*

STATE OF NEW MEXICO)
: ss.
COUNTY OF EDDY)

This instrument was acknowledged before me on February *26*, 2003, by G. A. Baber, as *President* of Baber Well Service Company.

My commission expires:

November 3, 2005

James M. Biggs
Notary Public

STATE OF NEW MEXICO)
: ss.
COUNTY OF EDDY)

This instrument was acknowledged before me on February *26*, 2003, by *Larry Barnett*, as *President* of Aspen Oil, Inc., a New Mexico corporation.

My commission expires:

November 3, 2005

James M. Biggs
Notary Public

EXHIBIT "A"

**Attached hereto and made a part of that certain Assignment
and Bill of Sale dated February 21st, 2003, effective February 1, 2003, by
and between Baber Well Servicing Company, as Assignor, and Aspen
Oil, Inc., as Assignee**

- Lease No. 1 (State 1-Y): State of New Mexico Oil and Gas Lease B-7071, insofar as it covers the following described lands and depths:
Township 17 South, Range 28 East, N.M.P.M.
Section 31: E/2 NW/4,
from the surface to 2,000 feet subsurface.
- Lease No. 2 (State 1-X): State of New Mexico Oil and Gas Lease B-5862, insofar as it covers the following described lands and depths:
Township 17 South, Range 28 East, N.M.P.M.
Section 31: NW/4 NW/4,
from the surface to 2,000 feet subsurface.
- Lease No. 3 (Sunray): State of New Mexico Oil and Gas Lease B-11593, insofar as it covers the following described lands and depths:
Township 17 South, Range 28 East, N.M.P.M.
Section 30: Lots 2 (SW/4 NW/4) and 4 (SW/4 SW/4),
from the surface to 650 feet subsurface.
- Lease No. 4 (Hastie): United States Oil and Gas Lease LC 045818(a), insofar as it covers the following described lands and depths:
Township 17 South, Range 28 East, N.M.P.M.
Section 18: NW/4,
from the surface to 1,000 feet subsurface.
- Lease No. 5
(Cockburn-Homan): State of New Mexico Oil and Gas Lease B-10992, insofar as it covers the following described lands and depths:
Township 17 South, Range 27 East, N.M.P.M.
Section 36: SE/4 NE/4,
from 1,000 feet subsurface to 3,000 feet subsurface.

- Lease No. 6 (Malco State): State of New Mexico Oil and Gas Lease B-10021, insofar as it covers the following described lands and depths:
Township 17 South, Range 28 East, N.M.P.M.
Section 31: SW/4 NE/4,
from the surface to 800 feet subsurface.
- Lease No. 7 (Julia Brainard): United States Oil and Gas Lease LC 058181, insofar as it covers the following described lands and depths:
Township 17 South, Range 27 East, N.M.P.M.
Section 25: S/2 SW/4, W/2 SE/4,
from the surface to 650 feet subsurface.
- Lease No. 8 (Conklin): State of New Mexico Oil and Gas Lease E-1059, insofar as it covers the following described lands and depths:
Township 17 South, Range 27 East, N.M.P.M.
Section 36: SW/4 NE/4,
from the surface to 1,000 feet subsurface.
- Lease No. 9 (Acrey State): State of New Mexico Oil and Gas Lease B-8318, insofar as it covers the following described lands and depths:
Township 17 South, Range 27 East, N.M.P.M.
Section 36: SE/4 NW/4,
from the surface to 1,000 feet subsurface.
- Lease No. 10 (State 1A): State of New Mexico Oil and Gas Lease E-379, insofar as it covers the following described lands and depths:
Township 17 South, Range 27 East, N.M.P.M.
Section 36: NW/4 NE/4,
from the surface to 750 feet subsurface.
- Lease No. 11 (State 1B): State of New Mexico Oil and Gas Lease E-379, insofar as it covers the following described lands and depths:
Township 17 South, Range 27 East, N.M.P.M.
Section 36: SW/4 SW/4,
from the surface to 1,000 feet subsurface.

Lease No. 12 State 6-M and 7-M): State of New Mexico Oil and Gas Lease E-379, insofar as it covers the following described lands and depths:

Township 17 South, Range 27 East, N.M.P.M.

Section 36: SW/4 SW/4,
from 600 feet subsurface to 1,400 feet subsurface.

Lease No. 13 (Delhi): State of New Mexico Oil and Gas Lease B-11538, insofar as it covers the following described lands and depths:

Township 17 South, Range 27 East, N.M.P.M.

Section 36: NE/4 NE/4, NE/4 NW/4, NW/4 SW/4,
from the surface to 650 feet subsurface.

Lease No. 13(a) (Delhi): State of New Mexico Oil and Gas Lease B-11538, insofar as it covers the following described lands and depths:

Township 17 South, Range 27 East, N.M.P.M.

Section 36: NW/4 SW/4,
from 650 feet subsurface to 1,000 feet subsurface, and from 2,000 feet subsurface to 2,278 feet subsurface.

Lease No. 13(b) (Delhi): State of New Mexico Oil and Gas Lease B-11538, insofar as it covers the following described lands and depths:

Township 17 South, Range 27 East, N.M.P.M.

Section 36: NE/4 NW/4,
from 650 feet subsurface to 1,000 feet subsurface.