

September 6, 1995

Mailed 9/8/95

Eugene Lushbaugh  
Fidelity/Surety Claim Division  
United States Fidelity and Guaranty Company  
P.O. Box 1138  
Baltimore, MD 21203-1138

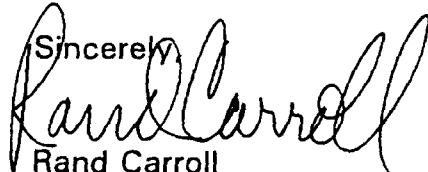
RE: Claim No.: 9901 S 202816-01-1  
Bond No.: 01-130-10204-89-2

Dear Mr. Lushbaugh:

Reference is made to your letter dated August 3, 1995, to Mr. Johnny Robinson of the New Mexico Oil Conservation Division (NMOCD) regarding the above-referenced claim and bond. We have looked into this matter and are hereby informing you that the above-referenced bond is the only bond covering this well. There is no bond in the name of John Caranta, Cardel Oil Company, Caranta Brothers, Glen Developers and/or any other party for this well.

NMOCD Rule 101.H. states that "Any bond required by this rule...shall endure until any well...has been covered by another bond". Rule 101.I. states that "Transfer of a property does not of itself release a bond. In the event of transfer of a well, the appropriate form, C-103 or C-104, properly executed, shall be filed with the District Office of the Division in accordance with Rule 1103 or Rule 1104 by the new owner of the well. The District Office may approve the transfer providing that a new one-well bond covering the well or a blanket bond in the name of the new owner has been approved by the Santa Fe office of the Division". The purpose of these rules is to ensure that a well is at all times covered by a plugging bond, i.e., there is no lapse in coverage. The NMOCD does not concern itself with the underlying terms of the property transfers. If it did, it would constantly be involved in the legal technicalities of these transfers and the liability for plugging the wells would remain uncertain until a court decided who actually owned the property. The NMOCD thus only looks at the C-103 or C-104 Change of Operator and plugging bond filings. The last Change of Operator form and the only plugging bond on file is for CMS. If the sale between Caranta and CMS did not go through, it is up to CMS to see to it that a Change of Operator is filed naming Caranta as the new operator and that Caranta or someone else files a new plugging bond to take the place of the CMS bond. Until the Change of Operator form and the new plugging bond are filed, CMS and its bond will be held liable for plugging this well.

If you have any questions, please feel free to call me at 505/827-8156.

Sincerely,  
  
Rand Carroll  
Legal Counsel

cc: Johnny Robinson, Aztec District Office