

September 11, 1995

T.L. Noose, Claim Department  
Kemper National Insurance Companies  
80 Blue Ravine Road  
Folsom, CA 95630-4702

RE: Your File No.: 780 SE 011094  
Bond No: 9 SE 064533 00  
Principal: Charles Harle  
Obligee: State of New Mexico

Dear Mr. Noose:

Reference is made to your letter dated August 17, 1995. Enclosed are copies of the orders issued in New Mexico Oil Conservation Division Cases 11253 and 11254 (Zimmerman #2 and #3 wells). Also enclosed are copies of the bonds covering these wells issued by American Manufactureres Mutual Insurance Co. as well as correspondence relating to these wells.

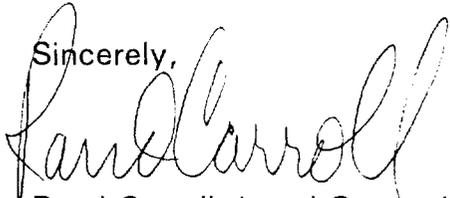
As you can ascertain from the correspondence, American Manufacturers requested that these bonds be canceled in 1980, 1982, 1983 and 1985 but the New Mexico Oil Conservation Division (NMOCD) would not honor those requests because the underlying conditions for the release of bonds (the proper plugging and abandonment of the wells) had not been met. The NMOCD intends to put out for bid contracts for the plugging of the two subject wells. Once those wells are plugged, the NMOCD will foreclose upon the bonds covering those wells in the amount of the plugging costs or, if less, the amount of the bonds.

Note: There is a small discrepancy in the location of the Zimmerman #3 well, with the bond listing 1980 feet from the West line and the actual location being 2145 feet from the West line. The bond was issued prior to the well being drilled so the location must have changed slightly from the time the bond was filed. However, both locations are in the same unit (Unit C). Since each unit (40 acres) is allowed only one well and the only well on that 40 acres is the location at 2145 feet from the West line, the NMOCD will take the position that the bond is intended to cover the well location at 2145 feet from the West line (the only well in that unit). Also Note: The Zimmerman #1 well should be the Zimmerman #3 well.

The last addresses we have for Charles Harle are P.O. Box 354, Roswell, NM 88201 and P.O. Box 1101, Sonora, TX 76950. Certified letters to those two addresses were returned to the NMOCD as undeliverable.

If you have any more questions regarding these bonds or wells, please feel free to call me at 505/827-8156.

Sincerely,



Rand Carroll, Legal Counsel