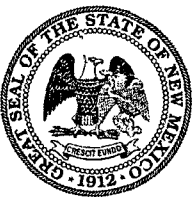


NM2 - 18

BONDS



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

September 17, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Mr. M.R. "Billy" Tripp, Jr.
Hillside Oil and Gas, LLC.
510 North Big Spring
Midland, TX 79701

**RE: \$25,000 Surety Bond for Centralized Surface Waste Management Facility
Hillside Oil and Gas, LLC., Principal
RLI Insurance Company, Surety
NW/2 SE/4 Section 34, Township 18 South, Range 26 East, NMPM
Eddy County, New Mexico
Bond No. RLB005908 and Rider No. 1**

Dear Mr. Tripp:

The New Mexico Oil Conservation Division hereby approves the above-referenced Centralized Surface Waste Management Facility Surety Bond Rider No. 1.

Sincerely,

Gail MacQuesten,
Assistant General Counsel

MSH:mjk

Enclosure: Copy Bond No RLB005908 and Rider No. 1

xc with attachment:

~~Pat~~ Hobbs OCD Office

Greg E. Chilson, RLI Insurance Company, 8 Greenway Plaza, Suite 400, Houston, TX 77046

RECEIVED

SEP 11 2003

OIL CONSERVATION
DIVISION

RIDER NO. 1

Attaching to and forming part of Surety Bond for Waste Management Facilities, Bond No. UIB0008191, executed June 29, 2000, on behalf of Hillside Oil & Gas, LLC as Principal, in favor of the State of New Mexico as Obligee, in the amount of Twenty Five Thousand and No/100 Dollars (\$25,000.00).

It is understood and agreed that effective June 29, 2003, the Surety Company on the above referenced bond is amended to read **RLI Insurance Company**.

It is also understood and agreed that effective June 29, 2003, the bond number for the above referenced bond has been changed from UIB0008191 to RLB0005908.

All other conditions and terms to remain as originally written.

Signed, sealed and dated this 29th day of June, 2003.

Hillside Oil & Gas, LLC

Principal

By: [Signature] - Sec/Treas

RLI Insurance Company

8 Greenway Plaza, Suite 400

Houston, TX 77046

Surety

By: [Signature]

Greg E. Chilson, Attorney-in-Fact



9025 North Lindbergh Dr. • Peoria, IL 61615
(309) 692-1000 or (800) 645-2402

RLB0005908

POWER OF ATTORNEY

RLI Insurance Company

Know All Men by These Presents:

That the RLI INSURANCE COMPANY, a corporation organized and existing under the laws of the State of Illinois, and authorized and licensed to do business in all states and the District of Columbia does hereby make, constitute and appoint: GREG E. CHILSON in the City of HOUSTON, State of TEXAS, as Attorney-in-Fact, with full power and authority hereby conferred upon him to sign, execute, acknowledge and deliver for and on its behalf as Surety and as its act and deed, all of the following classes of documents to-wit:

\$25,000.00

Indemnity, Surety and Undertakings that may be desired by contract, or may be given in any action or proceeding in any court of law or equity; policies indemnifying employers against loss or damage caused by the misconduct of their employees; official, bail and surety and fidelity bonds. Indemnity in all cases where indemnity may be lawfully given; and with full power and authority to execute consents and waivers to modify or change or extend any bond or document executed for this Company, and to compromise and settle any and all claims or demands made or existing against said Company.

The RLI INSURANCE COMPANY further certifies that the following is a true and exact copy of a Resolution adopted by the Board of Directors of RLI Insurance Company, and now in force to-wit:

"All bonds, policies, undertakings, Powers of Attorney, or other obligations of the corporation shall be executed in the corporate name of the Company by the President, Secretary, any Assistant Secretary, Treasurer, or any Vice President, or by such other officers as the Board of Directors may authorize. The President, any Vice President, Secretary, any Assistant Secretary, or the Treasurer may appoint Attorneys-in-Fact or Agents who shall have authority to issue bonds, policies, or undertakings in the name of the Company. The corporate seal is not necessary for the validity of any bonds, policies, undertakings, Powers of Attorney, or other obligations of the corporation. The signature of any such officer and the corporate seal may be printed by facsimile."

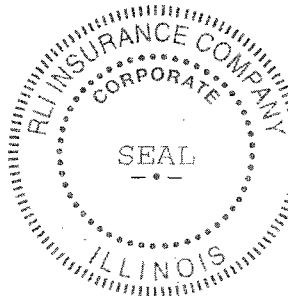
(Blue shaded areas above indicate authenticity)

IN WITNESS WHEREOF, the RLI Insurance Company has caused these presents to be executed by its PRESIDENT with its corporate seal affixed this

ATTEST:

Camille J. Hensey

Corporate Secretary



By:

RLI INSURANCE COMPANY

Jonathan E. Michael

President

State of Illinois)
County of Peoria) SS

On this 29 day of June 2003 before me, a Notary Public, personally appeared Jonathan E. Michael and Camille J. Hensey, who being by me duly sworn, acknowledged that they signed the above Power of Attorney as President and Corporate Secretary, respectively, of the said RLI INSURANCE COMPANY, and acknowledged said instrument to be the voluntary act and deed of said corporation.

Cherie L. Montgomery

Notary Public



SPA026 (10/01)

UNDERWRITERS INDEMNITY COMPANY

(Now Known As Lexon Insurance Company)

April 30, 2003

TO UNDERWRITERS INDEMNITY COMPANY BOND PRINCIPALS & OBLIGEEES:

We want to take this opportunity to let you know about some important changes that are happening at Underwriters Indemnity Company ("UIC").

As you may know, since 1999, UIC has been part of the RLI Corp. family. RLI Corp. is a New York Stock Exchange listed company that operates its insurance business through a variety of affiliated insurance companies. RLI Corp.'s flagship insurance company is RLI Insurance Company, an A, IX, A.M. Best rated insurer.

Effective April 30, 2003, RLI Insurance Company assumed all of UIC's obligations under bonds and any policies of insurance it issued. As a result, Underwriters Indemnity Division of RLI Insurance Company is now the surety on all of UIC's previously issued bonds and the insurer on any policy of insurance. In addition, any obligations under indemnity agreement entered into with UIC are now owed to RLI Insurance Company.

You should also be aware that UIC has changed its name to Lexon Insurance Company. This assumption by RLI Insurance Company is in anticipation of Lexon Insurance Company coming under new ownership outside the RLI Corp. family in the near future.

These changes will not affect the service you have come to expect. Any questions should still be directed to my attention at the following address:

Roy C. Die, Vice President
Underwriters Indemnity Division of
RLI Insurance Company
8 Greenway Plaza Ste. 400
Houston, Texas 77046
713.961.1300 Telephone
800.223.2293 Toll Free Telephone
713.961.0285 Fax

Unless we hear from you in writing at the above address prior to September 15, 2003, we will assume that you have agreed to the assumption of UIC obligations by RLI Insurance Company.

Very truly yours,

UNDERWRITERS INDEMNITY COMPANY
(Now Known As Lexon Insurance Company)

By: _____
Roy C. Die, President

TERRORISM RIDER

NOTICE - FEDERAL TERRORISM INSURANCE COVERAGE AND DISCLOSURE OF PREMIUM

Any loss applicable to a peril covered under this bond that is caused by a certified act of terrorism pursuant to the terms of the Terrorism Risk Insurance Act of 2002 ("the Act,"), will be partially reimbursed by the United States under a formula established by federal law. Under this formula, the United States pays 90% of covered terrorism losses exceeding a statutorily established deductible to the insurance company providing this bond. The portion of your annual premium attributable to certified acts of terrorism under this bond is \$1.00

COVERAGE LIMITATIONS

Payment for a loss will not exceed the limit of liability under this bond. This bond will not pay for any portion of certified terrorism loss beyond any applicable annual liability cap set forth in the Act. The terms of this rider do not provide coverage for any loss that would otherwise be excluded by the terms of this bond.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

Lori Wrotenbery

Director

Oil Conservation Division

October 30, 2000

CERTIFIED MAIL

RETURN RECEIPT NO. Z-559-573-329

Mr. M.R. "Billy" Tripp, Jr.
Hillside Oil and Gas, LLC.
510 North Big Spring
Midland, TX 79701

**RE: \$25,000 Surety Bond for Centralized Surface Waste Management Facility
Hillside Oil and Gas, LLC., Principal
Underwriters Indemnity Company, Surety
NW/2 SE/4 Section 34, Township 18 South, Range 26 East, NMPM
Eddie County, New Mexico
Bond No. UIB0008191**

Dear Mr. Tripp:

The New Mexico Oil Conservation Division hereby approves the above-referenced Centralized Surface Waste Management Facility Surety Bond.

Sincerely,

Marilyn S. Hebert,
Legal Counsel

MSH:mjk

Enclosure: Copy Bond No. UIB0008191

xc with attachment:

Hobbs OCD Office

Roy C. Die, Underwriters Indemnity Company

Energy, Minerals and Natural Resources Department
Oil Conservation Division
Surety Bond For Waste Management Facilities
(File with Oil Conservation Division, 2040 South Pacheco Street, Santa Fe, New Mexico 87505)

BOND NO. UIB0008191
(For Surety Company Use)

KNOW ALL MEN BY THESE PRESENTS:

That Hillside Oil & Gas, LLC, (~~an individual~~
~~partnership or a corporation~~ organized in the State of Texas, with its principal office in the City of Midland, State of Texas, and authorized to do business in the State of New Mexico), as PRINCIPAL, and Underwriters Indemnity Corporation organized and existing under the laws of the State of Texas Company, and authorized to do business in the State of New Mexico with duly appointed resident agent in the State of New Mexico to execute this bond on behalf of the surety company, as SURETY, are held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of the Energy, Minerals and Natural Resources Department (the "Division") pursuant to Section 70-2-12 NMSA, 1978, (1995 Relp.) as amended in the sum of Twenty-Five Thousand----- (\$ 25,000.00) Dollars for the payment of which PRINCIPAL and SURETY hereby bind themselves, their successors and assigns, jointly and severally.

The conditions of this obligation are such that:

WHEREAS, the above principal has heretofore or may hereafter enter into the collection, disposal, evaporation, remediation, reclamation, treatment or storage of produced water, drilling fluids, drill cuttings, completion fluids, contaminated soils, BS&W, tank bottoms, waste oil and/or other oil field related waste in Section NW $\frac{1}{4}$ of SE 18S, Township 18S, Range 26E, NMPM, Eddy County, New Mexico.
 $\frac{1}{4}$ of Sec. 34

NOW, THEREFORE, this \$25,000.00-- performance bond is conditioned upon substantial compliance with all applicable statutes of the State of New Mexico and all rules and orders of the Oil Conservation Commission, the Division, and upon clean-up of the facility site to standards of the Division; otherwise the principal amount of the bond to be forfeited to the State of New Mexico.

Signed and sealed this 29th day of June, ~~19~~ 2000

Hillside Oil & Gas, LLC
Principal
PO Box 8911
Midland, TX 79702

Mailing Address

By

Signature

Title

SEC/TREAS

Underwriters Indemnity Company
Surety
8 Greenway Plaza, Suite 400
Houston, TX 77046

Mailing Address

By

Attorney-in-Fact Roy C. Die

Note: If Principal is a corporation, affix corporate seal here.

Note: If corporate surety, affix corporate seal here.

Note: If corporate surety executes this bond by an attorney-in-fact not in New Mexico, the resident New Mexico agent shall countersign here below.

Countersigned by:

Carroll H. Carroll
New Mexico Resident Agent

P.O. Box 848 Hobbs, NM 88241
Address

1. (For a natural person acting in his own right:)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____

My commission expires:

Date

Notary Public

2. (For a partnership acting by one or more partners)

STATE OF _____)
)SS.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____,
by _____, partner(s) on behalf of
_____, a partnership.

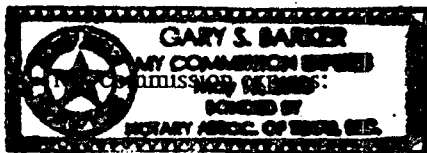
My commission expires:

Date

Notary Public

3. (For a corporation or incorporated association)

The foregoing instrument was acknowledged before me this 30th day of June, 192000,
by M. R. TRIPP JR. SEC/TREA of Hillside O+G LLC,
a corporation, on behalf of said corporation.



Date

Notary Public

NOTE: When Lessor is a partnership, corporation or association, list all partners, officers and directors as may be applicable. This information may be provided below.

APPROVED BY:
OIL CONSERVATION DIVISION

By: Gyn Street 11/1/00

GENERAL POWER OF ATTORNEY

CERTIFIED COPY

KNOW ALL MEN BY THESE PRESENTS: That **UNDERWRITERS INDEMNITY COMPANY**, a corporation organized and existing under the laws of the State of Texas, and having its principal office in the City of Houston, Texas, does hereby constitute and appoint:

Roy C. Die

its true and lawful attorney-in-fact to execute, seal and deliver for and on its behalf as surety, any and all bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, which are or may be allowed, required or permitted by law, statute, rule, regulation, contract or otherwise, in an amount not to exceed: **\$25,000.00**

and the execution of all such instrument(s) in pursuance of these presents, shall be binding upon said **UNDERWRITERS INDEMNITY COMPANY** as fully and amply, to all intents and purposes, as if the same had been duly executed and acknowledged by its regularly elected officers at its principal office. This Power of Attorney is executed, and may be certified to and may be revoked, pursuant to and by authority of a resolution enacted by the Board of Directors of **UNDERWRITERS INDEMNITY COMPANY**. The following is a true transcript of said resolution:

That at all times since the formation of this corporation, the President or any Vice President, Assistant Vice President, Secretary or Assistant Secretary shall have power and authority.

(1) to appoint attorneys-in-fact, and to authorize them to execute on behalf of the Company; and attach the Seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and

(2) to appoint special attorneys-in-fact, who are hereby authorized to certify to copies of any power-of-attorney issued in pursuance of this section and/or any of the Bylaws of the Company, and

(3) to remove, at any time, any such attorney-in-fact or special attorney-in-fact and revoke the authority given to him.

Further, this Power of Attorney is signed and sealed by facsimile pursuant to resolution of the Board of Directors of said Company adopted by consent of which the following is a true excerpt:

"Now therefore the signatures of such officers and the seal of the Company may be affixed to any such power of attorney or any certificate relating thereto by facsimile, and any such power of attorney or certificate bearing such facsimile signatures or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by facsimile signatures and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached."

IN TESTIMONY WHEREOF, **UNDERWRITERS INDEMNITY COMPANY** has caused this instrument to be signed and its corporate seal to be affixed by its authorized officer, E.H. Frank, III, on this the 30th day of April 1996.



E.H. Frank III

President

STATE OF TEXAS
COUNTY OF HARRIS

On this 30th day of April 1996, before me came the individual who executed the preceding instrument, to me personally known, and, being duly sworn, said that he is the therein described and authorized officer of **UNDERWRITERS INDEMNITY COMPANY**; that the seal affixed to said instrument is the Corporate Seal of said Company; that the said Corporate Seal and his signature were duly affixed by order of the Board of Directors of said Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal, at the City of Houston, Texas, the day and year first above written.



Robin N. Neville

NOTARY PUBLIC, Harris County, Texas

CERTIFICATION

I, the undersigned officer of **UNDERWRITERS INDEMNITY COMPANY**, do hereby certify that I have compared the foregoing copy of the Power of Attorney and affidavit, and the copy of the Section of the By-Laws of said Company as set forth in said Power of Attorney, and that the same are correct transcripts thereof, and of the whole of the said originals, and that the said Power of Attorney has not been revoked and is now in full force and effect.

IN TESTIMONY WHEREOF, I have hereunto set my hand this 29th day of June XX 2000



Greg E. Chilson

Assistant Secretary

Greg E. Chilson

Only a certified copy of Power of Attorney bearing the Certificate of Authority No. printed in red on the upper right corner is binding. Photocopies, carbon copies or other reproductions of this document are invalid and not binding upon the Company.

ANY INSTRUMENT ISSUED IN EXCESS OF THE PENALTY AMOUNT STATED ABOVE IS TOTALLY VOID AND WITHOUT VALIDITY.