

Gruy Petroleum Management Co.

600 East Las Colinas Blvd. ♦ Suite 1100 ♦ Irving, TX 75039 ♦ (972) 401-3111 ♦ Fax (972) 443-6450

Mailing Address: P.O. Box 140907 ♦ Irving, TX 75014-0907

A subsidiary of Magnum Hunter Resources, Inc. • An American Stock Exchange Company • "MHR"

September 12, 2000

N M Oil Conservation Division
2040 South Pacheco
Santa Fe, NM 87505
Attn: Ms. Dorothy Phillips

Re: Palmillo State Com No. 2
Sec. 32 T8S R29E
Eddy County New Mexico

Dear Ms. Phillips:

Enclosed for your handling is a One-Well Plugging Bond for the referenced well. It is my understanding that upon your acceptance of this bond the operator of the Palmillo State Com No. 2 well will be changed from Snow Oil and Gas to Gruy Petroleum Management Co., by the N.M.O.C.D. district office.

If you have any questions regarding this matter, please contact me at 972-443-6489.

Yours truly,

Zeno Farris
Manager, Operations Administration

CC: NM Oil Conservation Division
811 South First
Artesia, NM 88210
Attn: Mr. Tim Gum





STATE OF NEW MEXICO

ONE-WELL PLUGGING BOND

**For CHAVES, EDDY, LEA, MCKINLEY, RIO ARRIBA, ROOSEVELT,
SANDOVAL, AND SAN JUAN COUNTIES ONLY**

BOND NO. RLB0002380

AMOUNT OF BOND \$10,000.00

COUNTY **Eddy**

NOTE: For wells less than 5,000 feet deep, the minimum bond is **\$5,000.00***
For wells 5,000 to 10,000 feet deep, the minimum bond is **\$7,500.00***
For wells more than 10,000 feet deep, the minimum bond is **\$10,000.00**

*Under certain conditions, a well being drilled under a \$5,000.00 or \$7,500 bond may be permitted to be drilled as much as 500 feet deeper than the normal maximum depth, i.e., a well being drilled under a \$5,000.00 bond may be permitted to go to 5,500 feet, and a well being drilled under a \$7,500.00 bond may be permitted to go to 10,500 feet. (See Rule 101)

File with Oil Conservation Division, 2040 South Pacheco, Santa Fe, NM 87505

KNOW ALL MEN BY THESE PRESENTS:

That Gruy Petroleum Management Co., (An individual) (a partnership) (a corporation organized in the State of Texas, with its principal office in the city of Irving, State of Texas, and authorized to do business in the State of New Mexico), as PRINCIPAL, and RLI Insurance Company

_____, a corporation organized and existing under the laws of the State of Illinois, and authorized to do business in the State of New Mexico, as SURETY, are held firmly bound unto the State of New Mexico, for the use and benefit of the Oil Conservation Division of New Mexico pursuant to Section 70-2-12, New Mexico Statutes Annotated, 1978 Compilation, as amended, in the sum of Ten Thousand Dollars lawful money of the United States, for the payment of which, well and truly to be made, said PRINCIPAL and SURETY hereby bind themselves, their successors and assigns, jointly and severally, such

Date _____

By:

OIL CONSERVATION DIVISION OF NEW MEXICO

APPROVED BY:

(Corporate Security - Power of Attorney)

Nancy Cruz
Notary Public

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

Gruy Petroleum Management Co.

PRINCIPAL

600 Las Colinas Blvd., #1100
Irving, TX 75035

By Morgan F. Johnston
Signature

Morgan F. Johnston
V.P., Gen. Counsel, & Secretary
Title

(Note: Principal, if corporation, affix
corporate seal here)

RLI Insurance Company

SURETY

8 Greenway Plaza, #400, Houston, TX 77046

Greg E. Chilson
Address
Greg E. Chilson Attorney - In-Fact

(Note: Corporate surety affix corporate
seal here)

ACKNOWLEDGMENT FORM FOR NATURAL PERSONS

STATE OF _____)
ss.
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally
appeared _____, to me known to be the person (persons) described in and who executed the foregoing
instrument and acknowledged that he (they) executed the same as his (their) free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.

Notary Public

My Commission Expires _____

ACKNOWLEDGMENT FORM FOR CORPORATION

STATE OF TEXAS)
ss.
COUNTY OF DALLAS)

On this 30th day of August, XX 2000, before me personally appeared Morgan F. Johnston,
to me personally known, who, being by me duly sworn, did say that he is Vice Pres., Gen Coun. & Sec.
of Gruy Pet. Mgmt Co. and that the foregoing instrument was signed and sealed on behalf of said corporation by authority of its
board of directors, and acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal on the day and year in this certificate first above written.



Karen Ventrca
Notary Public

10-10-02
My Commission Expires

ACKNOWLEDGMENT FORM FOR CORPORATE SURETY

STATE OF Texas)
ss.
COUNTY OF Harris)

On this 29th day of August, XX2000, before me appeared Greg E. Chilson,
to me personally known, who, being by me duly sworn, did say that he is
Attorney-in-Fact of RLI Insurance Company and that the foregoing instrument was signed and sealed
on behalf of said corporation by authority of its board of directors, and acknowledged said instrument to be the free act and deed



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

RLB0002380

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:

\$10,000.00

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)

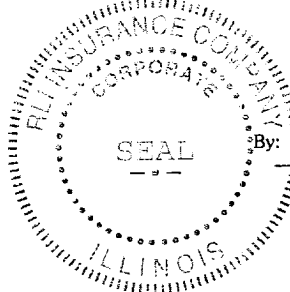
IN WITNESS WHEREOF, the RLI Insurance Company has caused these presents to be executed by its CHAIRMAN, CEO with its corporate seal affixed this

ATTEST:

Camille J. Hensey

Corporate Secretary

State of Illinois)
County of Peoria) SS



RLI INSURANCE COMPANY

Gerald D. Stephens

Chairman, CEO

On this 29 day of August 2000 before me, a Notary Public, personally appeared Gerald D. Stephens and Camille J. Hensey, who being by me duly sworn, acknowledged that they signed the above Power of Attorney as Chairman, CEO and Corporate Secretary, respectively, of the said RLI INSURANCE COMPANY, and acknowledged said instrument to be the voluntary act and deed of said corporation.

Cynthia S. Dohm

Notary Public

"OFFICIAL SEAL"
CYNTHIA S. DOHM
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 02/24/02